

BUDGET ENFORCEMENT FOR RECONCILIATION

4. G 74/7: B 85/17

Budget Enforcement for Reconciliati...

HEARING
BEFORE THE
LEGISLATION AND NATIONAL
SECURITY SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

MAY 13, 1993

Printed for the use of the Committee on Government Operations



FEB 15 1994

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CONTENTS

	Page
Hearing held on May 13, 1993	1
Statement of:	
Conyers, Hon. John, Jr., a Representative in Congress from the State of Michigan, and chairman, Legislation and National Security Sub- committee: Opening statement	1
Kasich, Hon. John R., a Representative in Congress from the State of Ohio	16
Reischauer, Robert D., Director, Congressional Budget Office	54
Sabo, Hon. Martin Olav, a Representative in Congress from the State of Minnesota	42
Letters, statements, etc., submitted for the record by:	
Clinger, Hon. William F., Jr., a Representative in Congress from the State of Pennsylvania: Prepared statement	14
Conyers, Hon. John, Jr., a Representative in Congress from the State of Michigan, and chairman, Legislation and National Security Sub- committee: Opening statement	3
Kasich, Hon. John R., a Representative in Congress from the State of Ohio: Prepared statement	22
McCandless, Hon. Al, a Representative in Congress from the State of California:	
Prepared statement	8
Washington Post article dated May 13, 1993, concerning deficit cuts ..	11
Reischauer, Robert D., Director, Congressional Budget Office: Prepared statement	58
Sabo, Hon. Martin Olav, a Representative in Congress from the State of Minnesota: Prepared statement	45

BUDGET ENFORCEMENT FOR RECONCILIATION

THURSDAY, MAY 13, 1993

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Members present: Representatives John Conyers, Jr., Cardiss Collins, Al McCandless, and William F. Clinger, Jr.

Also present: Representatives Henry A. Waxman, John M. Spratt, Jr., and Christopher Cox.

Subcommittee staff present: James C. Turner, associate counsel; Bennie B. Williams, clerk; and Kevin Sabo, minority counsel.

Full committee staff present: Julian Epstein, staff director; Kevin Cronin, associate counsel, and Matthew R. Fletcher, minority staff director.

OPENING STATEMENT OF CHAIRMAN CONYERS

Mr. CONYERS. Good morning.

The Subcommittee on Legislation and National Security will come to order. This morning's hearing addresses the proposed extension of the Budget Enforcement Act in the budget reconciliation process.

The President of the United States has proposed extending both the pay-as-you-go requirements and the discretionary spending cap of the Budget Enforcement Act. Yesterday, the President proposed the creation of a deficit reduction account to hold funds from cuts in mandatory spending programs or revenue increases.

The proposal follows through on an important commitment to the public. However, deficit reduction requires making tough choices, whether the savings are dedicated to special funds or not. The past 12 years of Republican administrations have run up three-quarters of the Nation's more than \$4 trillion Federal debt, and now it is our job, the Congress' and the administration's, to deal with this problem.

Some are also calling for spending caps to be placed on entitlement spending, correctly pointing out that the escalating growth of the deficit is a result of uncontrolled entitlement spending, particularly in health care programs. Apart from the political controversy this may create, many feel that an arbitrary limit on entitlements could unfairly deprive Americans of needed benefits and remove an

important countercyclical economic protection in difficult times. They caution that the answer to uncontrolled entitlement spending is to reform the entitlement programs, particularly the health care programs.

I will include the rest of my remarks in my opening statement in the record.

[The opening statement of Mr. Conyers follows:]

Opening Statement of Chairman John Conyers, Jr.
Legislative Hearing: Budget Enforcement for Reconciliation

Committee on Government Operations,
Subcommittee on Legislation and National Security

May 13, 1993

Good Morning. The Legislation and National Security Subcommittee will come to order. This morning's hearing addresses the proposed extension of the Budget Enforcement Act in the budget reconciliation process.

The President has proposed extending both the "Pay-As-You-Go" requirements and the discretionary spending cap of the Budget Enforcement Act. Yesterday, the President proposed the creation of a "Deficit Reduction Account" to hold funds from cuts in mandatory spending programs or revenue increases.

The proposal follows through on an important commitment to the public. However, deficit reduction requires making tough choices, whether the savings are dedicated to special funds or not. The past twelve years of Republican Administrations ran up three-quarters of the nation's more than \$4 trillion Federal debt. Unfortunately, it's been left to this Administration and this Congress to deal responsibly with the legacy of the 1980s.

Some are also calling for spending caps to be placed on entitlement spending. Correctly they point out that the escalating growth of the deficit is a result of uncontrolled entitlement spending, particularly in health care programs. Apart from the political controversy this may create, many feel that an arbitrary limit on

entitlements could unfairly deprive Americans of needed benefits remove an important countercyclical economic protection in difficult economic times. They caution that the answer to uncontrolled entitlement spending is broad health care reform, including health care entitlement programs such as medicare and medicaid.

Budget process reform is an important issue under the jurisdiction of the House Committee on Government Operations. Earlier this year, the Committee brought to the House floor, legislation to provide the President with expedited rescission authority. Budget reform legislation represents our continuing commitment to ensure that the federal budget acknowledges and addresses our national "investment deficit" as well as our budget deficit and meets our basic obligations to all Americans.

Earlier, the House passed the Budget Resolution, calling for \$343 billion in deficit reduction over five years. Reconciliation plays an important role in implementing the recommendations of the Budget Resolution. Let's be clear that this is a "high stakes" game -- reconciliation represents approximately two-thirds of the nearly \$500 billion in deficit reduction proposed by President Clinton for the next five years.

This past election stressed "making government work." With a

current Federal budget deficit of about \$310 billion and an accumulated Federal debt of more than \$4 trillion, difficulty is all too apparent. However, is the budget process to blame?

The lesson of Gramm-Rudman law seems to be that a budget enforcement agreement is useful in enforcing consensus, but cannot force consensus to occur. Budget process is no substitute for the absence of political consensus or political will.

One thing appears clear -- The budget deficit is not caused by the budget process. As a former director of the Congressional Budget Office said: "the budget process is not the problem, the problem is the problem."

We are pleased to have with us today, the Chairman and Ranking Republican from the House Budget Committee, Martin Olav Sabo and John Kasich. Additionally, the Director of the Congressional Budget Office, Dr. Robert Reischauer, will offer his perspective. Unfortunately, due to an unfortunate change in plans, OMB Director Panetta will not be testifying at this time.

I now turn to our ranking Republican on the Subcommittee, Al McCandless for his comments.

Mr. CONYERS. I will now turn to my distinguished ranking minority member, Mr. Al McCandless of California.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

I also want to thank our witnesses this morning and tell Chairman Sabo, Mr. Reischauer, and Mr. Kasich how much we appreciate their presence.

I would also like to note the absence of the Office of Management and Budget Director Leon Panetta. Mr. Panetta was scheduled to be our lead off guest today, however, we learned about a half hour ago he would not be appearing. Whether that means this administration is backing away from its support for a 1990 budget enforcement agreement or whether it means the administration is simply unwilling to openly discuss and defend its newly announced, already criticized deficit reduction trust fund, I don't know.

I do know, however, that Mr. Panetta's absence hampers the ability of this committee to do its job well and we must now proceed without administration guidance.

I find it ironic and disappointing that the President has chosen a time when we are considering real deficit reduction to include in his proposal a so-called deficit reduction trust fund. Just at a time when the American people had hoped and believed that the administration cares about deficit reduction, we see a proposal that members of this administration called stale and rejected.

Let me point out that now-Deputy OMB Director for Budget Alice Rivlin called a similar proposal just a gimmick. Quoted in this morning's Washington Post, Ms. Rivlin stated "I don't understand how earmarking a portion of the individual taxpayer's taxes for debt reduction can make a difference when we are running a deficit. As long as the government is spending more than it is taking in, I don't see that has any real meaning. It is really just a gimmick."

She was quoted as recently as a day before as saying nothing different is happening.

Even House Budget Committee Chairman Martin Sabo was quoted as saying "I don't think it changes the substance of anything."

When our last President proposed this type of an idea, the Democratic candidate suggested that he did not deserve a second term. What does it say, Mr. Chairman, about an administration less than 120 days into their term, pulling out old, rejected ideas to use as their own?

I would like to hear from our witnesses what has changed to make this proposal, denounced as a gimmick when proposed by a Republican, a sound deficit reduction plan when proposed by a Democrat.

Ross Perot, I believe, would simply say this plan is goofy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McCandless follows:]

STATEMENT OF
CONGRESSMAN AL MCCANDLESS
RANKING MINORITY MEMBER

Legislation and National Security Subcommittee
Committee on Government Operations
May 13, 1993

Mr. Chairman: I want to thank our witnesses this morning, especially Office of Management and Budget Director Leon Panetta who is appearing before our panel for the third time in as many months. Mr. Director, it speaks highly of your commitment to budget and management controls in the Executive Branch that you have spent so much personal time meeting with this committee.

One of the few good measures arising from the 1990 Budget Agreement was the spending limits placed on discretionary spending. The "firewalls," the spending caps, and the PAYGO requirements have placed, perhaps, the only restraints on increased domestic spending this Congress has seen since the Gramm-Rudman-Hollings Act of the mid-1980s. I am interested in hearing the Administration's recommendations for extending some of these restraints look forward to hearing the recommendations of the other witnesses as well.

I find it ironic, and disappointing, however, that the President has chosen a time when we are considering real deficit reduction controls to include in his proposal a so-called deficit reduction "Trust Fund". Just at a time when the American people have a reason to believe that the Administration cares about deficit reduction, we see a proposal that members of this administration suggested were stale and rejected.

Let me point out that now-Deputy OMB Director for Budget Alice Rivlin called a

similar proposal "just a gimmick." Quoted in this mornings Washington Post, Ms. Rivlin stated, "I don't understand how earmarking a portion of the individual taxpayer's taxes for debt reduction can make a difference when we're running a deficit. As long as the government is spending more that it's taking in, I don't see that has any real meaning. It's really just a gimmick." She was quoted as recently as the day before as saying, "nothing different is happening."

Even House Budget Committee Chairman Martin Sabo was quoted as saying, "I don't think it changes the substance of anything."

When the last President from my party proposed this type of idea, the candidate from the other party suggested that he does not deserve a second term. What does it say, Mr. Chairman, about an administration less than 120 days into their term, pulling out the old and rejected ideas and using them as their own. I would like to hear from our witnesses today what has changed, what makes this proposal a "gimmick" when proposed by a Republican and sound deficit reduction plan when proposed by a Democrat.

Ross Perot, I believe, would simply call this plan "goofy."

Thank you, Mr. Chairman, and I ask that a copy of this morning's Washington Post be included in the record.

Mr. McCANDLESS. Mr. Chairman, I ask that a copy of this morning's Washington Post article be included in the record.

Mr. CONYERS. Without objection, so ordered.

[The article follows:]

Clinton Backs a 'Trust Fund' for Deficit Cuts

President Seeks to Reassure Voters That Tax Revenue Won't Be Diverted to New Programs

By Al Kamen and Ann Devroy
Washington Post Staff Writers

President Clinton yesterday moved to deflect increasingly successful Republican efforts to paint him as a "tax and spend" Democrat by endorsing legislation that would require that federal revenue designated for deficit reduction be used for that purpose only and not for new government spending.

Both supporters and critics of the proposal, which has been circulated by congressional Democrats for several months, agree it does not change how much money is raised by the federal government or how it is spent. It is meant simply to add another layer of reassurance that Clinton and Congress will do what they say they will do.

"Credibility is a difficult thing to come by in Washington today," Clinton told several hundred students, teachers and much of New York's Democratic establishment at the Cooper Union for the Advancement of Science and Art in New York City. "I don't blame the people for being distrustful of what they hear coming out of Washington" about budget matters.

The proposal would establish a legally separate trust fund that would hold the \$196 billion in deficit reduction proposed by the president and written into the budget resolution already approved by Congress. The intention is that these funds could then not be raided by either Clinton or Congress to pay for new spending programs.

Senate Minority Leader Robert J. Dole (R-Kan.) called the proposal a gimmick, "that gives smoke and mirrors a bad name."

"What the American people really want to see is the deficit reduced by spending cuts, not tax increases," Dole said. "So, I say again, President Clinton has it backwards—the taxpayers are a lot more interested in a 'Spending Cuts Trust Fund.'"

Clinton used the trust fund proposal three times yesterday in assuring audiences that he is serious about deficit reduction. In the White House Rose Garden, he said he was trying to "guarantee" such reduction through the trust fund. Later, in New York, he said it was needed to convince Americans that Washington will deliver on its promises.

Clinton said the new legislation, proposed three months ago by House Democrats Charles E. Schumer (N.Y.) and Bill Brewster (Okla.), would require that the administration "put every penny of new taxes and budget cuts into the trust fund . . . so that when we say we are going to do something with the people's money that is what is done."

White House economic adviser Gene Sperling called the fund a "legally binding contract" that would "lock away" from use for new programs all the net new taxes and spending cuts in Clinton's budget plan.

"This is a response to people who say 'I don't mind contributing some more money . . . if I know that every single dollar [in new taxes] would be going for deficit reduction,'" Sperling said.

The proposal was reminiscent of President George Bush's proposal at the 1992 Republican National Convention to allow taxpayers to earmark part of their taxes for deficit reduction only and put those funds in a separate account.

At that time, Democrats described budget trust funds as gimmicks. Alice M. Rivlin, now deputy budget director, said of Bush's proposal, "I don't understand how earmarking a portion of the individual taxpayer's taxes for debt reduction can make a difference when we're running a deficit. As long as the government is spending more than it's taking in, I don't see that that has any real meaning. It's really just a gimmick."

Rivlin agreed yesterday that no policy had changed. "Nothing different is happening," she said. "It's just a way of indicating how much difference the [president's] plan makes in terms of the deficit by showing that the money is in an account or fund."

Clinton has spent much of the week out of Washington trying to make the case that he is committed to cutting the deficit as he is spending more on his pet programs. Public polling suggests

Americans increasingly view Clinton as spending and taxing too much, rather than as the "new Democrat" of the campaign.

The long losing fight over the Clinton economic stimulus package, in which the president found himself arguing strenuously for more spending, helped create the tax-and-spend impression, aides acknowledge, and this has been a week of public repositioning for Clinton. In all his speeches in the Midwest and in New York, he has emphasized cutting spending.

Sperling said tax increases, entitlement savings, spending cuts, Social Security savings and other savings would make for a total deficit reduction plan of \$496 billion over the next five years.

Clinton's day in New York included a fund-raiser gala at Lincoln Center in which the Democratic National Committee (DNC) expected to raise more than \$3 million. It is the same kind of fund-raising the president last week proposed to end as part of his campaign overhaul proposals.

Some 1,700 donors paid \$1,500 each to attend the dinner, with the DNC requesting that checks arrive before last Friday, when Clinton

proposed banning "soft money," the unlimited contributions that individuals now may make to political parties.

The trust fund proposal was mostly praised by congressional Democrats. Sen. Bill Bradley (D-N.J.) had said in a Wall Street Journal article published yesterday that Clinton should try just such an approach. But some Republicans said Clinton's trust fund does nothing to address Americans' larger concern that the government taxes and spends too much.

Sen. Pete V. Domenici (N.M.), the ranking Republican on the Senate Budget Committee, said, "Everyone has thought about a trust fund, but it's so holey that no one will do it."

"This is all accounting," Domenici said.

House Budget Committee Chairman Martin O. Sabo (D-Minn.), commenting on the president's proposal, said, "I don't think it changes the substance of anything. The fact is we have a deficit reduction plan of [almost] \$500 billion, before and afterwards."

Devroy reported from Washington, Kansas from New York Staff writers Steven Mulsom and Eric Pianin in Washington contributed to this report.

Mr. CONYERS. The Chair now turns to Mr. John Spratt, subcommittee chairman, Government Operations.

Mr. SPRATT. I thank the gentleman for letting me participate in this subcommittee hearing today, but I don't have an opening statement. I look forward to questioning the witnesses, and Mr. Kasich.

Mr. CONYERS. Let's see. Are you ready now, Mrs. Collins? Do you have a comment?

Mrs. COLLINS. Mr. Chairman, I have no opening statement. Thank you very much.

Mr. CONYERS. You are welcome.

Now, Mr. Waxman does have one.

Mr. WAXMAN. Thank you, Mr. Chairman. I wanted to defer to others of this committee to make their statements, but I do have some comments that I want to make.

I think the most telling point in this discussion of budget reform is what you just said in your opening statement. One thing appears clear, the budget deficit is not caused by the budget process, and as the former Director of the CBO said, the budget process is not the problem. The problem is the problem.

If we are going to reduce the deficit, let's reduce the deficit. If that is our commitment, let's take the actions that will reduce the deficit in two ways: Decrease spending or increase revenues, or both. But let's not just put procedural gimmicks into place.

I look at the Gramm-Rudman process and we still have this enormous deficit. That was supposed to reduce the deficit to zero in a few years.

Some of my colleagues think we ought to adopt an amendment to the Constitution that would prohibit deficit spending, but then when it comes to voting to actually wipe out the deficit, they are not willing to do that.

Caps on entitlement programs are a very dangerous idea, because they do not respond to the fact that our economy runs in cycles. If we put a cap on programs that are supposed to help people when they lose their jobs, it is at that very moment that those kinds of entitlement programs need more money, not less.

So I am pleased to be here with you and to hear the witnesses who are going to talk to us about a process for reducing the deficit. I know that you are going to have Chairman Sabo from the Budget Committee. His committee reported a budget resolution that was adopted this year and we are in the process of, if you will, fulfilling its terms through a reconciliation bill that will actually start us down the road to deficit reduction.

The way to reduce the deficit is to reduce the deficit, not to think that you are going to establish a process to do it and then not actually do the job.

Thank you.

Mr. CONYERS. You are welcome.

Mr. McCandless.

Mr. MCCANDLESS. Mr. Chairman, I would ask unanimous consent that Congressman Clinger's statement be entered into the record.

Mr. CONYERS. All right.

[The prepared statement of Mr. Clinger follows:]

**STATEMENT OF
CONGRESSMAN BILL CLINGER**

**Legislation and National Security Subcommittee
Committee on Government Operations
May 13, 1993**

Mr. Chairman: Let me simply associate myself with the remarks of Mr.

McCandless in welcoming the distinguished witnesses before our committee this morning.

I also want to express my disappointment that the Administration canceled their appearance late last night and that the minority office was not notified of this fact until 30 minutes before this hearing began. I would appreciate, Mr. Chairman, if your staff would reach out to my office when such dramatic changes occur to a hearing schedule.

Regarding the issue before us this morning, I agree that it is important to maintain the discipline over discretionary spending that the spending caps and PAYGO requirements provided for the past several years. President Bush, and indeed the Republican Party, has paid a big price for the 1990 Budget Agreement. It is important that what was good about that budget agreement be continued. I am pleased that this Administration has endorsed their continuation.

I am also concerned that despite President Clinton's promises to avoid the smoke and mirrors of past budget processes, we are faced with a phony proposal to sit monies in a so-called "Trust Fund" to pay down the deficit. If such monies were available, and I do not think that they are, why don't we simply pay down the deficit now instead of parking money in a trust fund. Mr. McCandless' statement was right on point, even members of this administration have called these proposals gimmicks and they should be rejected now.

Thank you, Mr. Chairman.

Mr. CONYERS. The Chair invites Chris Cox, distinguished member of this committee, for any comments that he would choose to make.

Mr. COX. I thank the chairman and I would like to welcome the ranking Republican on our Budget Committee, with whom it is my privilege to serve, John Kasich, and I am looking forward to his testimony.

I am also pleased to be here as the ranking member on the Subcommittee of Commerce, Consumer, and Monetary Affairs with our distinguished Chairman John Spratt.

Let me add to what ranking member Mr. McCandless has said concerning the latest trial balloon concerning this trust fund gimmick. It is not really a trust fund in the way that Americans understand those words for two reasons: First, there is no reason for us to trust someone who is adding \$1.2 billion to the national debt in his own budget to reduce the deficit. And second, there is no fund.

These moneys will not be separately set aside, as Americans understand trust funds to be set aside, any more than the Social Security trust fund is set aside or the airport and airways trust funds are set aside. They are simply accounting entries. The cash goes out the door because the government is running an enormous deficit.

The President, you will note, did not say he was going to set aside moneys to pay down the debts, only to "reduce the deficit," and yet the deficit that he is reducing is his own estimate of an even bigger and worse problem than we have at present.

He says he will reduce that all the way down to \$200 billion and more in each of the 5 years of his budget as a result. As I said, he is proposing \$1.2 trillion of addition to the national debt and this trust fund gimmick does not change that in any way at all.

I would also like to differ with my colleague from California, Mr. Waxman, concerning the contribution that the budget process might make to real deficit reduction and real debt reduction. I think the budget process does contribute to the problem that we have right now because it is so badly broken. The process is disorganized.

The so-called limits in the process are easily avoided by Congress and we are all aware of the fact that the Rules Committee in the House, for example, routinely waives the Budget Act in its entirety.

Over 50 percent of the rules in the last Congress passed out by the Rules Committee waived the Budget Act in its entirety.

There are no real enforcement mechanisms in place. The 1974 Budget Act, which provides our current timetable, was broken in every time with respect to every legal deadline in 1992. So I think we do need to fix the budget process, and Gramm-Rudman-Hollings provides a perfect example of how a process can help.

Our colleague from California said if it worked, gee we would have no deficit right now. During those years when we had Gramm-Rudman, the deficit did go down, but you may recall we repealed that Gramm-Rudman law in 1990. I voted against the repeal, but several here voted for it.

Of course, it doesn't work any longer and since 1990 we have had the largest deficits on record.

I think we do need to focus on the process. I am delighted the chairman has scheduled these hearings for that purpose and I am looking very much forward to Mr. Kasich's testimony immediately following.

Thank you, Mr. Chairman.

Mr. CONYERS. Our first witness is the gentleman from Ohio, who is affectionately regarded in the Government Operations Committee for his work on the B-2 stealth bomber and his energetic and affirmative cuts in some of the reckless defense spending, which is not easy to do on that committee on which he serves with great distinction.

He has worked on a number of reforms in the health care area and worked on some foreign affairs matters, and we welcome this distinguished and ranking member of the House Budget Committee to begin our testimony.

STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. KASICH. Thank you, Mr. Chairman. Kind of like walking in the middle of a gun fight, to tell you the truth.

The gentleman from California just made an interesting point and he wanted to thank you for scheduling these hearings. You see, the bizarre fact is he has to schedule these hearings and nobody really knows it. I would say the gentleman from California, because no one except for Marty Sabo, I would guess, because he does understand the 1974 Budget Act, I don't think there are 10 Members of Congress that understand how the 1974 Budget Act works, why it was written the way it was written, and what we do about it, whether we should do anything about it, and this is the committee that has the jurisdiction.

Now, you might say why is it that the Government Operations Committee has jurisdiction over the Budget Act? Why is it that the Budget Committee doesn't have jurisdiction over the Budget Act? Why is it that the Budget Act is or the Budget Committee is constituted the way it is? Why is it you have revolving terms and all these other things?

Well, it is for one reason, because back in 1974, when the Congress of the United States had Richard Nixon in I would say a difficult situation, he was impounding—in addition to Watergate, we had this debate about impounding funds, and there was all this confusion about the way we were doing budgeting here. And believe it or not in 1974 there was concern about entitlement spending.

There was no concern really about much about taxes. There was not great concern even about deficits, but there was concern about what was going to happen with what they called back door spending, which was entitlement spending. And there was no systemic process to try to coordinate the actions of everybody in the Congress.

So in 1974, the appropriators got together with the authorizers and they decided that they needed to create this funnel or Budget Committee. But, of course, as is typical among a bunch of lawmakers, nobody wanted to give any power to this conglomeration or this new creation that we were going to make in 1974 called the Budget Committee. It wanted to give it some limited power, but

what everybody was worried about is "Oh, my goodness, if we create a Budget Committee, we may actually create some kind of a super committee here that will take the power away from appropriators and authorizers."

So they established this Budget Committee and they said the Budget Committee will do this blueprint and then we will go into this reconciliation process which involves taxes and entitlements and discretionary spending on the other side and never the two shall meet. And appropriators and authorizers cut a deal with one another so that authorizers would never mess with appropriators and appropriators would never mess with authorizers and we would bundle an appropriations bill and in case anybody was thinking about getting to be too powerful we will only let Sabo be there for 6 years and no longer than that.

This has had a profound consequence to the way in which we do budgeting, because there is nobody there who really cares about all this except, perhaps the Government Operations Committee and the chairman here, who I am sure understands the process, along with Mr. McCandless and a very select group of people who even understand what the 1974 Budget Act is all about.

So you have to have these hearings because you have to talk about whether there needs to be changes in that fundamental law, whether you are going to do caps, whether you are going to do PAYGO, these are all very legitimate discussions to have in a committee that unfortunately does not really have any direct impact on what we do in budget.

Now, if there is anything we ought to fix, we should say the Budget Committee ought to at least have joint jurisdiction. I will not say we should take all the jurisdiction, Mr. Chairman, because I am not going to get in a fight with you, but I think we should be playing a much larger role in terms of the writing of the Budget Act.

Now I will come back to all that. What I want to talk about, though, is the trust fund.

Look, if I say anything about the trust fund, I might be flagged for piling on. You have Rivlin, Sabo, all the Republicans. Yesterday the Washington Post asked me what I thought about it. I said I would like to read it before I comment on it because maybe the President has come up with something good. The only thing I would caution the White House about is when they come up and say no more gimmicks and then present something that will not really control spending, it appears to me—and I have not seen the details of this program—what I worry about is the credibility factor.

You know, you get the New York Times and the Washington Post and the Wall Street Journal starting to say, "Whoops, there goes the President again in terms of credibility," and I want to have a credible President and I get concerned if the credibility becomes an issue and I think right now it is an issue and I wish they would either define this, make it real, put some teeth in it or withdraw it. Because it just is not going anywhere with anybody that I can—and I want to give credit to my chairman for—not saying he is backing the proposal, but saying, "Look, it will not really achieve a lot," and that takes courage to say that and I respect that.

In terms of the caps, obviously, I think the caps on discretionary spending ought to be extended, but I think they ought to be kept separate. I don't see there is any reason—let's go back to 1990. In 1990 we decided we would have the Budget Act of 1990, which did repeal Gramm-Rudman, which was working.

We put these caps in place and the deal was we are going to have fire walls and we will have separate caps for discretionary and defense and foreign affairs, and it was supposed to be that way for 3 years.

Why did they do it that way? They wanted to really protect defense from being raided. What they decide was in the last 2 years of the Budget Act, it would be appropriate to raid defense so we should eliminate the fire walls.

It was a deal. It was just a deal cut before between those that wanted to cut defense and those that thought we should not cut defense.

I happened to think we ought to cut defense, but I also don't think defense should be a pot we raid and we should not put defense in a free-fall, particularly now when we talk about Bosnia and Somalia and North Korea and all these other places. So I think the caps should be extended and I think they should be kept separate as we did for the first several years of this 3 years of this Budget Act.

PAYGO is this business that Mr. Waxman gets concerned about. If you are going to create a new entitlement program, then you have to pay for it. Now, this is interesting, because I think in a manner of speaking it has worked.

I am told that in Mr. Waxman's committee the other day, Alex McMillan offered an amendment to do a look-back on Medicaid that saved about \$800 million or \$900 million. And then Mr. Waxman, a couple days later, along with some of his Republican colleagues in a bipartisan effort, decided to establish a 1-year entitlement program to pay emergency rooms in hospitals in Texas, New Mexico, and California \$800 million to fund illegal aliens going into the hospital.

Now, he had to pay for it and he paid for it out of the \$800 million, so PAYGO worked. If it wasn't for the \$800 million that McMillan found they could have created this entitlement program and not worried about it, and I want to say to Mr. Waxman, I am one Republican that has a great deal of respect for him, because he represents a point of view—and I have told Henry this in the gymnasium—he represents a point of view that should be represented up here. But we also want to be in a position as those who do not necessarily agree with all of Mr. Waxman's views to be able to say no and PAYGO is one restraint on Mr. Waxman.

Say, Henry, you want a great program that pays for itself, and I think PAYGO makes sense, Mr. Chairman, if we are going to create more programs in light of these terrible deficits? Obviously, we should have something that forces us to pay for it and that specifically is what PAYGO does.

Now, this whole business of emergencies has allowed us to get around the caps and discretionary spending. We declare an emergency every day of the week and we spend about \$5 billion in excess of the caps because of declared self-declared emergencies. We

ought not to have all these emergency declarations, but overall the caps have been, if you say anything, PAYGO has been an improvement; caps have been an improvement in the system.

We ought to extend them and we ought not to just combine all the discretionary spending into one big pot.

Now, let's talk about something that I am really worked up about and something that people really don't know about. This takes us back to the Budget Act of 1974. You see, we are going through reconciliation and let me explain this for the people who don't know it on the committee or for the folks that are out here.

See, reconciliation means that the authorizing committees raise the tax money or affect the entitlement programs to achieve a certain deficit level.

But you see that is only one part of enacting the budget plan. The other part of it is the 13 appropriation bills.

Now, let me come over here to this chart, if I can, because the current budget processes, and we are in reconciliation. In fact, yesterday, in the Armed Services Committee, we had a very interesting debate about whether we should pay active military people, give them a pay raise. I am one that advocates a pay raise for the active military people.

I am not, Mr. Chairman, one that does not think we should not reform some entitlements in the military. I have a provision in the Republican budget proposal which I offered before the Armed Services Committee. It did not receive enthusiastic support, that says people under the age of 62 ought not to get a COLA with their retirement.

Nobody is real excited about voting on that, but I think we have to have some fiscal discipline when it comes to all the committees. I also want to give the military people a pay raise; the active military people.

So I wanted to offer this but it wouldn't be, Mr. Chairman, deficit neutral if I didn't cut defense more. Well, I don't choose to cut defense more because the administration wants to cut defense—tell you the truth, we don't know because they have 4 different baselines. It may be as much as \$150 billion.

Mr. CONYERS. Would my friend and distinguished gentleman work toward a conclusion?

Mr. KASICH. Yes, but this is important, Mr. Chairman, and you are going to understand this.

Mr. CONYERS. I didn't mean to suggest it wasn't important.

Mr. KASICH. Yes, you have other witnesses. I understand.

Mr. CONYERS. OK.

Mr. KASICH. Look, the bottom line is I want to cut money out of other discretionary spending and I want to use it to give the military their pay raise and I want to cut defense \$60 billion rather than \$100 billion, whatever it is, \$29 billion, \$30 billion, but—

Mr. CONYERS. Would my colleague do me a favor and take the mike, because a lot of people are not getting the benefit of this.

Mr. KASICH. Well, Mr. Chairman, what the chart illustrates is under the Budget Act, I am not permitted, I am not permitted to cut discretionary spending in order to offset tax increases. I am interested in presenting to the Congress an option between tax increases and increased spending.

What I want to do and my Republican colleagues have wanted to do is to say we don't want to have tax increases and we are prepared to lay our specifics on the table and we are prepared to avoid tax increases, but, Mr. Chairman, the 1974 Budget Act does not permit me to cut discretionary spending and use it to offset tax increases.

The only way I can offset tax increases under the 1974 Budget Act and the rules of the House is to increase the cuts in entitlements. Now, I have \$60 billion more in entitlement cuts than what the Democrats have in their package, but I want to take that \$60 billion and apply discretionary cuts to offset tax increases.

I am not permitted to do that under the 1974 Budget Act, and the reason is there is a Berlin Wall that goes between the categories.

You see, reconciliation means that all we do is raise taxes and cut entitlements, but I can't reach across into the discretionary spending accounts and bring money over because the Berlin Wall prevents me from doing it.

So essentially what I am telling you, Mr. Reischauer will tell you, if I was to write up my plan, he would score it as he scored my original plan at savings of \$429 billion. He will score my substitutes to the Democrats reconciliation package at the level I believe it should be scored at, but he will also tell me I am technically in violation of the law and out of order.

So the American people will be prevented from having an opportunity to see the Congress vote on discretionary cuts, cutting appropriation bills and using those cuts to offset tax increases. A technical reason, a technical provision in the law will be a short shrift for the American taxpayer.

I think first of all I will introduce legislation to knock the wall down, but you, Mr. Chairman, ought to reach forward and you ought to change this business. You ought to say that if the Republicans want to have the guts, as Mr. Waxman said, to cut the deficit, not the gimmicks you have a gimmick that keeps me from cutting the deficit, get rid of the gimmicks.

Let me reach across. Let me put my cuts on the table. Let me put my proposals on the table and say I want to eliminate tax increases and that change in the 1974 Budget Act would be a significant improvement in what we do.

And let me tell you, Mr. Chairman, in conclusion, this is nothing but a power game between the committees, between the authorizers and the appropriators. The appropriators don't like the authorizers messing with them and the authorizers don't like the appropriators messing with them, and let me tell you the more that Ross Perot hears about authorizers and appropriators having an ego spat, preventing us from having—without eliminating the technical violations to cutting spending first, he will be on TV again talking about the failure of Congress.

I think you should give us the ability to put our cuts and control the deficit and not have these gimmicks that Mr. Waxman talks about which prevent me from doing my job to cut spending first and eliminate the tax increases.

So I am glad to be here. I think you should do the PAYGO. I think you should do the caps and I think you should take this 1974

Budget Act and I think you should—you probably ought to throw it out the window and start again. That concludes my testimony.

Mr. CONYERS. Thank you very much.

[The prepared statement of Mr. Kasich follows:]

**TESTIMONY OF THE HONORABLE JOHN R. KASICH
BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
OF THE COMMITTEE ON GOVERNMENT OPERATIONS**

May 13, 1993

I am pleased to testify before the Subcommittee on the Administration's plan to extend the caps on discretionary spending and the pay-as-you-go requirement for entitlement and legislation. More important, I want to express my frustration that an obscure provision in the Budget Act will preclude members from offering a substitute to the reconciliation bill that replaces the Administration's tax package with discretionary spending cuts.

Extension of Caps on Discretionary Spending

I understand the Administration proposes to extend the caps on discretionary spending. I generally support extending the caps. I differ, however, with the Administration in that I support maintaining separate caps on defense, international affairs and domestic discretionary. Moreover, I would set the caps at levels that would achieve deeper cuts in international affairs and domestic discretionary spending. In fact, the caps from the Republican budget substitute would reduce discretionary spending by about \$225 billion from the CBO baseline, some \$125 billion deeper than what is proposed in the House-passed budget resolution.

I must say that the Administration's support for extending the caps is surprising in view of the fact that their stimulus package exceeded the caps in fiscal year 1993 and their budget would exceed the cap by more than five billion dollars in fiscal year 1994. Congressional Democrats' interest in this proposal comes as a surprise given the vast number who supported last year's efforts to remove the firewalls between the separate categories of discretionary spending.

The caps on discretionary spending have proven to be a source of fiscal restraint. The Appropriations Committees met the caps in fiscal years 1991, 1992 and 1993. A key reason for this success was that the separate caps in effect for those years imposed an enforcement mechanism on the appropriations subcommittees to keep spending under control and to avoid automatic cuts in programs for which they are responsible. Moreover, the separate cap on defense insured that the windfall from defense cuts went to deficit reduction rather than untold domestic initiatives.

My recommendation is to maintain the separate caps for defense, international affairs, and domestic discretionary that were in effect for fiscal years 1991 1992 and 1993 but are scheduled to be folded into a single category for fiscal years 1994 and 1995. While maintaining separate caps may impede flexibility, it will force members of Congress to take responsibility for their own budgetary decisions. In practical terms, this means that Congress cannot raid defense to pay for increasing spending in other areas of the federal budget.

Extension of PAYGO

I also support extending the pay-as-you-go (PAYGO) procedure that requires that legislation that increases entitlements be paid for with some combination of entitlement cuts and/or tax increases. Like the discretionary caps, PAYGO is scheduled to expire after fiscal year 1995.

If the 1990 budget agreement did nothing else, it represented the first real attempt to control entitlement spending. Under PAYGO, Congress is confronted with the simple fact that it must pay for any increase in entitlements.

The obvious short-coming in PAYGO is that it only covers entitlement spending attributable to new legislation. Clearly, something must be done to control the growth of spending of existing entitlements. The nation can no longer afford to let entitlements grow at a double digit rate as they threaten to make \$300 billion deficits a permanent component of the federal budget.

Reform of the Reconciliation Process

My support for extending PAYGO and the caps on discretionary spending should in no way be construed as support for the Congressional budget process. Quite the opposite is true. PAYGO and caps on discretionary spending are needed because the Congressional budget process is a dismal failure. In no area is this more apparent than in the reconciliation process. In my view, the current reconciliation process is perversely biased towards tax increases over spending cuts.

As you know, reconciliation is the process by which Congress, through instructions contained in the concurrent budget resolution, direct committees to report changes in existing laws to achieve spending reductions or tax increases. In practical terms, reconciliation has emerged as the single largest bill that Congress considers in any session. This year it is being used to translate the Administration's huge tax increases into law.

House Republicans have been considering offering a substitute for the \$272 billion in tax increases in the reconciliation bill currently being fashioned by the Ways & Means Committee. The Republican substitute would achieve the same amount of deficit reduction without raising taxes. The Republican substitute, which was offered as an amendment to the budget resolution, would also provide Congress a compelling choice between two diametrically opposed visions. One vision is responsible spending cuts and the other the largest tax increase in history.

Much to my chagrin, a technical roadblock prohibits the Republican amendment. The source of this roadblock is an obscure section in the Congressional Budget Act that requires that amendments to the reconciliation bill be deficit-neutral. While the Republican plan would achieve the same amount of savings as the Democrat bill by imposing caps on discretionary spending, the Budget Act prevents discretionary caps from being in technical compliance with the deficit-neutral requirement. These discretionary caps are not "scoreable" under reconciliation because the savings are contingent on subsequent appropriations. In other words, more than \$225 billion in discretionary spending cuts cannot offset the Democrat tax increases.

Both CBO and the Budget Committee recognize that the caps will reduce discretionary spending since automatic cuts would kick in if they are exceeded. In addition, no one seriously contests the fact that the caps imposed in the 1990 reconciliation bill have kept spending lower than it would have been without them. CBO can even score the Republican package as having the effect of achieving the same amount of deficit reduction as the Democrats' plan. However, the discretionary caps are not counted for the purposes of reconciliation.

The by-product of this nonsense is that once the budget resolution is passed, Congress is precluded from making trade-offs between discretionary spending and taxes. The tax-discretionary spending mix is essentially locked in--with no opportunity to consider alternatives.

Ironically, it is the Democrats who opened the door to discretionary spending cuts within reconciliation by requiring standing committees to report \$43 billion in authorization savings. It is the Administration and the Democrat majority that proposed incorporating caps on discretionary spending in the reconciliation bill--just as they did in OBRA 90. Yet, Republicans cannot, under the Budget Act, offset tax increases with additional discretionary spending cuts because the reconciliation process does not permit creating a new mix between tax increases and discretionary spending cuts.

In short, the 1974 Budget Act prevents Congress from having a renewed debate on the merits between tax increases and discretionary spending cuts. I intend to introduce legislation that will eliminate this roadblock by permitting discretionary spending cuts to offset tax increases in reconciliation. Specifically, my bill will tear down the "Berlin Wall" that currently exists between discretionary spending subject to appropriations and tax increases approved by the finance committees. Congress should have a second opportunity, after passage of a budget resolution, to modify the mix of taxes and spending in any deficit reduction package.

Other Necessary Reforms

Beyond changing the reconciliation process, other reforms are needed desperately to salvage what is left of the budget process. I recently testified on these recommendations before the Joint Committee on the Organization of Congress.

To begin with, the budget resolution should be converted into a joint budget resolution subject to the President's veto. The President's role is so integral to the entire budget process that it makes little sense for him not to be an equal partner in arriving at budgetary decisions. In the absence of a joint resolution, there is no single legislative vehicle by which Congress and the President can agree upon the outlines of budget policy. The President is limited to responding on an ad hoc basis as each of the 13 appropriations bills, sundry authorization bills, and an occasional reconciliation bill reach his desk.

Second, Congress needs to be bound by its own budget. Currently, the only way of enforcing the spending and revenue levels set forth in the budget resolution is through raising points of order against legislation that would bust the budget. Unfortunately, the House routinely waives points of order with a simple majority vote as part of the vote on the rule preceding debate. The House has waived the Budget Act on more than 500 occasions since the Budget Act was enacted. More importantly, the dramatic rise in blanket waivers, which by definition extend to the Budget Act, have rendered the budget resolution virtually meaningless.

Third, the Budget Committee should be strengthened so that it can enforce the budget once it is enacted. Among other things, membership on the Budget Committee should be made permanent. Members now rotate off after three terms. Members tend to view themselves as representatives of the authorizing and appropriations committees rather than as stewards of the budget process. The House Budget Committee should also be granted jurisdiction over the Budget Act.

And finally, the policy assumptions underlying the budget resolution need to be clearly and specifically stated. As Republican Budget Committee members have discovered, it is simply impossible to engage in a rational public debate without discussing the policy assumptions that drive the numbers. I am not asking that the Budget Committee micromanage budget decisions. However, Budget Committee members should not have to wait until after mark up to find out from the committee report the policy assumptions behind the numbers.

The Congressional Budget Act of 1974

I will conclude by recalling how Congress developed this byzantine set of rules and procedures that constitute the Congressional budget process.

The Congressional budget process, as we now know it, came not out of a desire to reduce the deficit but as a simple grab for power. In the early 1970's, Congress was enraged by President Nixon's decision to impound appropriated funds. In the wake of Watergate, Congress seized power over the budget through the Congressional Budget Act of 1974. The procedure and rules that constitute the Congressional budget process were incorporated into the Act as little more than an afterthought.

Still, there was an earnest effort to create some sort of a process whereby Congress could make coordinated budget and fiscal policy decisions. Up to that point, Congress passed separate appropriations and tax bills without any overall blueprint. Entitlements were not even addressed in the context of spending control.

The major concern in developing the 1974 Budget Act was not to control the deficit, which, as measured by today's standards, was quite small. Rather, its proponents were preoccupied with controlling entitlements which were not subject to annual reviews by the Appropriations Committees.

The solution was to develop a budget resolution that set ceilings on spending and a floor on revenue. A two-track approach was developed for executing the budget. On one track, a lump sum of spending authority was allocated to the Appropriations Committee for programs whose spending levels were set under the annual appropriations process. The Appropriations Committee then suballocates the lump sum among each of the 13 subcommittees which in turn divide up their share among various programs in separate appropriations bills.

On a second track, the budget resolution instructed authorizing committees to draft legislation that could achieve a specified amount of savings by cutting entitlements or raising taxes. The Budget Committee would bind up each of the committees' recommendations into a single omnibus bill.

The principal reason for establishing separate tracks for appropriations and taxes was to prevent jurisdictional battles between the authorization and appropriations committees. At the time of the original Budget Act, a major concern was how to control "backdoor spending" as entitlements were then called. The appropriations process already existed to control discretionary spending, but, other spending was largely uncontrolled. The authorizing committees were reluctant to give the appropriations committee jurisdiction over "backdoor spending" programs but realized that something needed to be done. Thus it was decided that a separate process for reducing "backdoor spending" would be required. This process involved instructing the authorizing committees to "reconcile" their legislation to the spending levels set in the Budget Resolution. To maintain the "integrity" of the process it was decided that the appropriators should not be able to cut programs outside of their jurisdiction that authorizers would not get credit for cutting authorizations for appropriations.

In summary, I recommend that the Government Operations Committee report legislation that would extend separate caps on defense, international affairs and domestic discretionary. The levels should be set at an amount which would provide savings below the baseline of at least \$125 billion over five years more than that suggested by the Administration. PAYGO should not only be extended, but it should be expanded into a cap on all entitlements. More important, the budget process should be modified so that trade-offs can be made between higher taxes and cuts in discretionary spending. Other necessary reforms include giving the budget resolution the force of law; enforcing the budget by requiring a supermajority to waive the Budget Act; and strengthening the Budget Committee.

I look forward to working with the full Committee in crafting budget process reforms that will make the process more accountable to the American people.

Mr. KASICH. I am sorry to have all the charts, Mr. Chairman.

Mr. CONYERS. Well, there were only three.

Thank you very much, Mr. Kasich.

Mr. KASICH. I didn't show you the third one. It is a pretty good one, too.

Mr. CONYERS. Let me thank you for starting us off, and let me also further invite you to continue to share your views with the committee. We are going to study your statement and your extemporaneous comments and see where they come together in terms of particular suggestions for this committee, which is why we are holding the hearing.

So I will be looking forward to working with you on this matter and I appreciate the enthusiasm and the sincerity with which you convey your points.

Mr. KASICH. You are a reformer, Mr. Chairman, and you get into people's bailiwicks all the time. I can remember more than one muffled conversation in the Armed Services Committee room about "Do you know what that Conyers is doing on the B-1 today?" You are a reformer. So you should look at this seriously. You should give us a chance to play ball. You should give us a chance to run the ball.

Mr. CONYERS. Well, sir, we have worked together before, and I don't think it was the last time.

Mr. KASICH. Good.

Mr. CONYERS. May I recognize now Mr. McCandless?

Mr. MCCANDLESS. John you and I came to Congress in the 98th Congress. I mention that because during the 98th Congress, we waived the budget rules 133 times. Since then we have waived it in excess of 50 times during a number of budget years.

What kind of an impact would that have if we had not waived the budget to the degree that we have over the years?

Mr. KASICH. We have raided it, Mr. McCandless, over 500 times. What would it mean? We would have lower spending and lower deficits. Again, we use a gimmick to waive the Budget Act. Maybe it is a gimmick to put it there, but it is a gimmick that allows us to waive it.

It is like walking to votes everyday. We do it as a matter of course. We should not have these waivers in the Budget Act. Let me tell you these baselines are the dumbest thing in the world and the Democrats—now I know Henry Waxman won't agree with me, but the Democrats should endorse getting rid of baselines, because if they want to cut the deficit, then they should be getting rid of the baseline.

What we have in South Carolina and Ohio, if you don't get a raise, it is not a cut. If you have a freeze, it is a freeze. If you cut below this year, that is a cut. We ought not to say that a slower increase in spending is a cut, and we should get rid of baselines. It would help everybody do their job easier so people could understand what the heck we are doing.

We should stop all these silly waivers. I mean 500 waivers that means there is no rule. I mean if the rule is you don't walk across the street because you are jaywalking but the cop never gives you a ticket and everybody jaywalks, then there is no rule effectively. So let's not be silly around here.

Mr. McCANDLESS. The 1974 Budget Act that you went into is really a piece of Swiss cheese when it comes to what we have actually done in terms of waiving the Budget Act.

Mr. KASICH. The 1974 Budget Act was a deal between appropriators and authorizers to try to deal with the problem of entitlement spending, but they did not want to let anybody get into anybody else's jurisdictions.

That is all it was, and a power grab by the Congress to take authority from the President of the United States. Since that time, Mr. McCandless, we have been using all of our efforts to try to restore one little bit of power to the Executive and that is called the line item veto.

So we shifted all the power away, when the president was weakened in 1974, and we did a bad job of constructing how this system ought to work.

Go on the floor and ask anybody do you know what the Government Operations Committee was doing with the budget today? I will guarantee you you cannot go over there now and find five Members who can tell you what the heck is going on in this room today.

Mr. McCANDLESS. Thank you.

Thank you, Mr. Chairman.

Mr. CONYERS. You are more than welcome.

The gentleman from California, Mr. Waxman.

Mr. WAXMAN. Thank you, Mr. Chairman.

Mr. Kasich, you seem to be complaining about these barriers that keep you from proposing changes in the budget that you think are appropriate to meet the needs of the country; is that correct?

Now, if that is the case, then why don't we just have a budget each year and we will establish how we will raise the money and how we will spend it. We will establish our priorities and we will have to live by that budget. Doesn't that make a lot of sense?

Mr. KASICH. Sounds to me like you are getting under the hood and fixing it.

Mr. WAXMAN. What you seem to resent is the fact you cannot make a change here and affect something over there. Well, if you believe that we ought to be able to establish a budget, do you also believe we should have artificial caps on entitlement spending?

Mr. KASICH. Let me say to the gentleman that if you want to work with me to design a system where we don't have this—look, you know what Dole said after we passed the budget, that doesn't mean anything. Now we start shooting real bullets. Remember he said that? Because nobody when they vote for the budget resolution takes it seriously.

Mr. WAXMAN. I took it seriously.

Mr. KASICH. Because you understand it.

Mr. WAXMAN. We took it seriously in our committee. We made deep cuts in Medicare and Medicaid. That is in our committee's jurisdiction. I didn't like making those cuts, because when we made those cuts we had to cut back on providers and what they got paid, we had to cut back on services for people who are covered by Medicare and Medicaid, those are the elderly and the poor.

If you put an entitlement cap on these two health care programs, you are going to have some artificial results. Why are these pro-

grams increasing in spending? The reason they are increasing is because health care costs are going up so rapidly.

We have more people who are poor as a result of the recession so they get on the Medicaid program. We have a growing elderly population. We have new technologies in medical care. When we put a cap on these entitlements, what do you think the result of it is?

Mr. KASICH. Let me say to you, Mr. Waxman, you are not under a charge to have to do it the way the Budget Committee tells you. All we do is a broad outline. Our budget resolution can be fixed any way it wants to. You can say if we are not going to—we don't even get specific.

We had a debate on the Budget Committee about whether we should be specific. If you tell me that you are in favor of a system that would get all the Congress to know that when we enact this, this is what we are doing to Medicare and Medicaid, we can specifically lay it out and we give it to you and you do it, I will help write the bill with you. I will cosponsor it.

In terms of the caps, let me respond directly.

Mr. WAXMAN. Let me say if we set what we want to do in spending, on discretionary spending programs each year, if we say we want to achieve a certain amount of savings in these entitlement programs each year, then the committees will have to work their will and maybe rearrange it, but come up with that result.

But if we put in a cap that says we must achieve a certain amount of spending and no more in these entitlement programs, the only way to get the savings to comply with an entitlement cap is to cut eligibility and shift even more cost to the beneficiaries or the private sector.

If we don't pay for health care for a lot of these people in the public programs, then those in the private programs will pay for it. We slash provider payments, we eliminate benefits, we deny the poor and the elderly access to the same technologies available to you and me. That is why—

Mr. KASICH. There is another option; fix the system.

Mr. WAXMAN. Excuse me. That is why I don't want somebody coming in here and telling us we must have a cap on entitlement programs. Give us a blueprint each year in the budget resolution as to what we must do.

You make a big to-do about Alex McMillan's proposal. He proposed the Clinton administration's recommendation for cuts in the Medicaid program.

We took that. We achieved more reductions in Medicaid. We saw one area where the administration asked us to see if we could come up with some funding to help emergency rooms that are heavily burdened by large numbers of undocumented aliens, which they must by law treat and at least stabilize and pay for under the Medicaid program. Our States that are burdened with that charge are saying they cannot deal with all these immigrants that are brought into the country because the Federal Government has not policed the border sufficiently. So this was a reasonable proposal, but we knew we had to pay for it.

You act—

Mr. KASICH. I said PAYGO was good.

Mr. WAXMAN. You act as if I didn't know, as a senior Member of Congress, that if we spend we have to raise the money to do it. That is an obvious thing. You either raise the money through taxes or cutbacks on spending. We did that because that is what the Budget Act required of us.

Let's do a Budget Act each year, stick by it, but don't put these artificial caps on entitlements.

I don't know about these artificial Berlin Walls, as you call them, maybe we should not have those either, but I just think these gimmicks cannot replace the will to enact a budget resolution and then to see it through.

Mr. KASICH. Let me respond, Mr. Chairman, because I want to say to you first of all, Mr. Waxman, I am not—I am in no way, shape, or form trying to take a shot at you because of what you did. What I am telling you is that you quickly gobbled up \$800 million that was saved—can I just finish?

Mr. WAXMAN. That is correct, but we met the budget target so we saved an additional amount.

Mr. KASICH. I said under the current mechanism, PAYGO makes sense because it even restrains Henry Waxman.

Mr. WAXMAN. If you don't think that is taking a shot at me, what do you think taking a shot is? It wasn't Henry Waxman. It was an administration proposal to meet a real entitlement need. You put a cap on Social Security. A young man like you will not have to worry about not getting cost-of-living increases, but a lot of elderly in this country will not make do if they don't get the Social Security increases.

Mr. KASICH. Henry, I said you have a passionate commitment to a lot of different things. There are other people out here that don't share all of your passionate commitments. What PAYGO does, as I said earlier, is it gives the other side an ability to say, "Wait a minute. If you are going to create a new program, pay for it."

Mr. WAXMAN. I don't dispute that for a minute.

Mr. KASICH. You listed a whole list of problems that drive up cost. No. 1, you are not—we have to fix the system. That was not one of your proposals there. You said slash providers and do all this. Let me give you another one. Stop mandating on the States. Let the States have the flexibility to do Medicaid the way they want to. I think you object to that all the time.

I mean the States have been interested in having flexibilities and you have been mandating the States. So stop mandating the States.

Mr. WAXMAN. I don't know why this has become a debate as to what I believe and don't believe, as you want to characterize it. The fact of the matter is the health care costs for both Medicare and Medicaid are going up because health care costs in our whole health care sector are going up so rapidly. Medicare cost increases are due to that fact, and more people added to the rolls of the uninsured and poverty increase spending for Medicaid. That is what is driving the cost up.

If you want to throw up some cliché about mandating something on somebody at the State level, the fact of the matter is that you may not care passionately about low-income women and children being covered for basic needs when we are trying to give the next

generation a start, but I do believe in it passionately. You may not want us to mandate that nursing homes in the States provide a decent quality care. I believe in it passionately and so does the Congress.

We enacted legislation to tell the States they had to meet certain basic standards. Would you disagree with me?

Mr. KASICH. No, I think I believe more passionately in that than you do. I think the difficulty comes down to the fact, Henry, that when we have a program like that, No. 1, is that we should pay for it; and, No. 2, my Governor, George Voinovich, believes passionately and we would like to have some elimination of mandates that you impose.

But let me just tell you about the caps and the concept behind it. Look, I have been saying for 5 years we need to fix health care. You believe we need to fix health care as well, but we keep moving along. The one concept and the one legitimate argument on the concept of caps is it forces us to start to make hard choices so that we can continue to provide quality care.

Mr. WAXMAN. If somebody tells you you cannot make those choices you were complaining you couldn't make because of artificial procedural barriers. Under our current procedures if we want to do some things in the entitlement area, we have to pay for them. But to put artificial caps on entitlements, especially in the health area, is going to lead to terrible results. And if caps are artificially imposed upon us, they will not be thought through and I think it is not consistent with a Budget Act that lets us do what is necessary to meet the needs of the Nation.

Mr. KASICH. Again, we have the two-prong process here. We have this thing called reconciliation now and then we go for the rest of the year doing 13 appropriation bills. We pass this broad outline and we don't do everything together. People are voting on a resolution. They never seem to understand that the resolution actually translates into some action in the committees.

I am saying that a more simplified process, the one you suggest, I would think that would be great, because the current system is so complicated and confusing. If I don't want to cut entitlements more than what I proposed—and you have seen the proposals that we have made in our budget, which are designed to guard people in our society that don't have anything, I don't want to cut entitlements at this point deeper than what the recommendations are that I made.

That is why I want to reach across—can you hear me out?

Mr. WAXMAN. You want to put a cap on the growth of Social Security, which means you cannot—

Mr. KASICH. I didn't put a cap on that.

Mr. WAXMAN. That is an entitlement. Are you proposing that we cap it?

Mr. KASICH. I didn't put a cap in my budget. McMillan has a bill—

Mr. WAXMAN. Are you proposing to this committee we put caps on entitlement programs for the future?

Mr. KASICH. I think that what we should do with the caps, and I have a recommendation in here on entitlement programs, is the administration, Marty Sabo, me, you and a bunch of people sit

down in a room and try to work out something that has to do with some kind of a reasonable cap.

I have avoided saying specifically—I want to work with you on it, but I also want to say that since entitlements are exploding, you and I have to work together to try to control them, and PAYGO is one element of it. I think PAYGO makes sense and I don't think you object to that. But if we have to go to a cap system, I am willing to work with you on the cap system.

I would like to say that you and I should write a new Budget Act because the current budget system is silly. If I don't want to cut entitlements any more than what I propose, and I want to go in here and go across and reform something else in the discretionary accounts, that is how I want to reduce the deficit, but I can't do it under the current law.

So if you are feeling strongly about preserving these entitlements, which I know you do, then you have to help me to be able to include discretionary spending in the mix. That is my point.

Mr. CONYERS. The Chair recognizes Mr. Cox for a few questions.

Mr. COX. Mr. Chairman, I would be delighted to make a few comments and put a question to Mr. Kasich.

It is my understanding that Congresswoman Collins, for scheduling reasons, needed to proceed next in order, and I would be delighted to yield for that purpose if she wishes to do so.

Mrs. COLLINS. I thank the gentleman very much for yielding and I appreciate his consideration for my time. I did want to make a comment or two and that is this.

First of all, I find that I am highly offended that the gentleman would come before the Government Operations Committee and make a statement that he feels the members sitting on this committee don't know what the heck is going on this Congress and don't know anything about this budget process. That is highly offensive.

Second, the gentleman mentioned something about an ego spat and I think what he has done here today is a typical example of exactly that. The gentleman has fed his ego to the cameras, to those who are listening throughout this Nation, to those sitting in this room, and I think that should never be done by another Member of Congress before any committee regardless of what he thinks to himself, but to make that kind of indictment of a congressional committee I think is beneath the gentleman's dignity or should be beneath his dignity.

Finally, let me say if the gentleman is dissatisfied with the way the budget process works, he has a right to explain what his problems are with it. However, as I see it, what he wants is a power grab, if you will; and for him to say the Budget Committee should be empowered to do more underscores that. If he is not happy with the budget process then work with the chairman of the committee and work with the Speaker of the House, the Majority Leader, and others to change it.

But to have a screeching indictment of a congressional committee that has been here working on budget reconciliation for years and years, and on which some of us even helped to write the budget law before the gentleman ever got here, and to unleash that kind of conduct I think is just beneath your dignity, I am surprised at you.

Mr. KASICH. Well, Mrs. Collins, let me just say that I am not trying to indict somebody by saying that the budget law in this Congress is not—

Mrs. COLLINS. You indicted Members of this Congress when you said that you doubt if 10 Members out of 435 knew anything about this budget process.

Mr. KASICH. I didn't say they knew nothing.

Mrs. COLLINS. And I would dare to differ with you.

Mr. KASICH. Mrs. Collins, let me say that the Budget Reconciliation Act and all those different appropriation bills, and outlining what the Berlin Wall is between them, in my opinion, that is not well understood. Why?

Mrs. COLLINS. You say now in your opinion, but you made a flat-out statement. I am glad you said "In my opinion" because now you have corrected the issue greatly.

Mr. KASICH. I said that I believe if you went over—I don't want to get into a debate about it.

Mrs. COLLINS. I know you don't because I think you erred and you made a mistake in so doing.

I yield and give the gentleman back his time and thank the gentleman.

Mr. KASICH. Well, Mr. Chairman, I would like to be able to respond to that. The problem is the 1974 Budget Act is arcane. It is confusing and it is not well understood.

We sat in the Armed Services Committee yesterday and debated what the rules were. At one point we had to use the staff to try to explain what can be done, what cannot be done, what should be offset what shouldn't be. This is a complicated, detailed, arcane system that needs to be simplified.

Mrs. COLLINS. You are saying Members don't have the ability to understand what a detailed, arcane system it is now, especially if they helped to write it?

Mr. KASICH. See that is the conclusion you drew. I said the system is so complicated and confusing that we just simply don't know it because it is so arcane. That of course doesn't mean—look, in the course of somebody in Congress doing their job, you are doing 1,000 things in 1 day.

Mrs. COLLINS. We all understand that.

Mr. KASICH. The last things Members are going to do is sit down and try to understand the intricacy of the 1974 Budget Act.

Mr. WAXMAN. If the gentlewoman would yield.

Mrs. COLLINS. I would be glad to yield to the gentleman.

Mr. WAXMAN. Explain to us the difference between PAYGO and a cap on entitlements.

Mr. KASICH. A PAYGO, Mr. Waxman, means that if you are going to create a new entitlement, you have to pay for it. You have to come up with the taxes to pay for it. In terms of the cap, the cap provides an overall, it would provide an overall spending limit and under the cap proposal I think you could reduce other spending.

Mr. WAXMAN. A cap is not what you put in a budget each year. A cap is what you put in if your projections may be wrong for growth in the future; isn't that right?

Mr. KASICH. Repeat that again.

Mr. WAXMAN. A cap on entitlement would be your judgment as to what the growth is going to be in the future, and you will say even if your projection was wrong, you will not let it grow more than that.

Mr. KASICH. You can say you cannot exceed the cap. Under PAYGO, you can exceed the cap, but you pay for it. There is just a difference in terms of whether you don't permit spending to go above a certain level.

Mr. WAXMAN. Well, if I might, Mr. Chairman, one of the problems is this gentleman is arguing to us about budget reform and he doesn't understand that distinction when it comes to entitlements.

PAYGO means when you spend more money in an entitlement area, you have to make up for it.

Mr. KASICH. That is right.

Mr. WAXMAN. You either raise money for it by additional revenues or cuts in other programs. A cap on entitlement means that you make a projection for the future as to what the growth will be, and if your projection is wrong, for example because there is a dip in the economy and more people are added to the rolls, or you have underestimated the inflationary impact in the health care sector, then you have a cap that says you have to then make cuts in that program in order to stay within that cap.

That is very different than PAYGO, and it seems to me there has been confusion as the gentleman has talked about it. PAYGO is something nobody here disagrees with. Caps in the future on entitlements is something that many of us disagree with because you lock yourself in to a judgment in the future that can do a lot of harm in the real world to real people.

Mr. KASICH. That is why I said, Mr. Waxman, I support PAYGO, but that when we talk about caps, as I say in my testimony, I want to sit down with—I want the leadership, the White House, and I want the Republicans to sit down and try to figure out what we do in the area of caps.

Mr. WAXMAN. You don't want artificial caps without us considering year by year; is that right?

Mr. KASICH. Let me answer it. I think it is reasonable for us to put some kind of caps in place. I am willing to say—I am going to try to help Alex McMillan with his concepts, but I am also willing to tell you that if you have improvements on what you think those caps should be.

What caps represent is the fact that, look, we are \$4.5 trillion in debt and entitlements are exploding. The question is how do we deal with them and I think one of the legitimate ways to deal with them is this concept that Alex McMillan pushes called caps. Now, am I willing to say—

Mr. WAXMAN. We should have Mr. McMillan here to explain what he means by that.

Mr. KASICH. His caps means you get inflation and demographics.

Mr. WAXMAN. Inflation and demographics could be very wrong as to what in effect could go wrong in the real world in those areas.

I thank the gentlelady. It is her time. If you say you want to work with us and each year we should figure out what the cap or spending should be, or what reductions we should make, that is dif-

ferent than an artificial cap that says no matter what we will be forced to reduce those programs no matter what harm it does to people.

Mrs. COLLINS. Mr. Chairman, I would like to thank the gentleman from California again for yielding to me and yield back the balance of my time.

Mr. CONYERS. The Chair——

Mr. KASICH. Mr. Chairman.

Mr. CONYERS. The Chair continues to recognize Mr. Cox.

Mr. COX. Thank you, Mr. Chairman.

I think we caught Mr. Kasich off guard, and I would recognize him if he wishes to finish his response.

Mr. KASICH. Would you let me make a short statement?

I will hold firm on my feeling about the fact that people do not in the Congress understand the complexities of this Act. You know, it is interesting, Mr. Chairman, when I tell people about this Berlin Wall concept here, do you know that people are really surprised about this; don't know about it; are unaware of it?

That doesn't mean that they have not done their job, it means they are unaware of it. It means this is such a complicated confusing process and procedure that it needs to be fixed. If the gentlelady from Illinois is upset about that, I am sorry she is upset, but I think it is true.

Thank you, Mr. Cox.

Mr. COX. Thank you, Mr. Kasich.

To proceed with my own time and questions, just very briefly, I don't think if we go back and take a look at the transcript of what has been said here this morning, there will be many questions about what Congressman Kasich has said this morning. It is something I think most Members on various occasions have said and agreed with.

Our existing budget process is broken down. It does not work. If it worked we would not be in the mess that we are in. It is so convoluted that of course people don't understand it because the law is violated.

Even if one has read the 1974 Budget Act and committed it to memory, it might not do you good in any particular year because Congress operates outside the Budget Act. When we went to Andrews Air Force Base, for example, to conduct the 1990 budget summit, that was a totally extralegal process.

It was improvised that year, and likewise last year. Every single date, every single deadline in the 1974 Budget Act was violated by the Congress. So Congress makes it up as it goes along. Every year is a little different. One year we will send a CR down to the President, the whole thing slap dashed, put together, and the President will sign it or shut down the government.

Another year it will be a reconciliation bill and another year something else again. We need a budget process that really works.

I think the gentleman has been overly modest in talking about his own expertise and accomplishments in the area of budget process reform. The Republican Budget Committee, under his leadership, put together a paper called Cutting Spending First. There is an appendix to Cutting Spending First that deals with budget process reform and it recommends legislation, real legislation already

drafted that has gathered over 150 cosponsors, including such democrats as Charles Stenholm and Tim Penny, that would do precisely what the gentleman recommends with respect to, for example, PAYGO.

It would permit us to use PAYGO across the board, not just cabined off for entitlements. It would permit us to cut spending with result anywhere in the budget. I think it is a very, very important provision.

Likewise, it provides real budget enforcement, and puts an end to budget waivers, which we have discussed this morning. It provides for a legally binding budget in the form of a law and not a nonbinding budget resolution which is currently the case. No more blank checks for any spending programs. No more such sums as may be necessarily appropriated.

It is a very thorough proposal and it deserves the attention of every member of this committee.

I hope that we will go back and read cutting spending first and its substantial detail on budget process reform, and I just want to congratulate John Kasich once again for doing all of that.

I wonder if you might permit me also to comment that while so-called artificial caps on any spending of any kind may well have real world consequences that affect real people, so too does unrestrained government spending. If we have uncontrolled spending, the real world consequence is that senior citizens who live on fixed incomes become victimized by inflation.

We have interest on the debt now accounting for roughly the entirety of our deficit, so we have no money to spend on programs such as my colleague from California would like.

It is in all of our interests, if we are compassionate people, to get rid of that damned deficit and that means controlling spending not leaving it to run amuck because we are afraid of so-called artificial caps. Limits on spending don't occur in nature, men and women have to make them. They are artificial in that sense, but they are vitally necessary and I think they are important for compassionate people.

Yes?

Mr. KASICH. The whole deal is we are \$4.5 trillion in the hole, and under the President's proposal we will go up another \$1 trillion in debt. We cannot just keep going in debt. I mean, you know, everybody that observes the Congress and observes the state of the government says we are racing toward bankruptcy. We let these things go unrestrained, and I think that the concept of saying that the Congress better sit down and get some fundamental things fixed, agreed upon, face up to tough decisions, take on special interests, is exactly what I think this concept of restraint brings in. That includes caps.

Now, I don't know that I would say to the gentleman from California precisely how the cap ought to work when it comes to entitlements. I do intend to support the efforts of Mr. McMillan to try to force some decisionmaking. I think it makes sense.

Dick Darman advanced that concept, as you will recall, to the Budget Committee before he left as Budget Director, but it is not going to be easy. We don't want to have an artificial action cap and

say if we don't meet the cap you throw people off the program. That is the downside.

The upside is maybe we can do things to address the fundamental problems that are driving the deficits.

Look, I would rather not have all these silly things that we have to do, the waivers, the caps, the PAYGO. I would rather just make it a simple deal. I would rather make it a simple process.

Senator Mack and I are working on a proposal right now that would—again, it works kind of within the confines of what we have with the playing fields that involves something like a new Gramm-Rudman. But the whole process should be—that is why I am encouraged, Mr. Chairman, and I am glad you are having hearings. Maybe this will be the start of a series of hearings to figure out how to simplify this whole thing and begin to deal with the deficits.

I tell you people back home are not happy with where we are going and they want fundamental changes.

Mr. CONYERS. Thank you very much.

The Chair recognizes subcommittee Chairman Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Mr. Kasich, let me sort of review the bidding with you. You agree, I take it, that the discretionary spending limits in the Budget Enforcement Act of 1990 have had a beneficial effect.

Mr. KASICH. Yes.

Mr. SPRATT. You agree the PAYGO rule has worked beneficially; it has helped us?

Mr. KASICH. It is not perfect, but certainly in the right direction.

Mr. SPRATT. So these two rules, while they are complicated and could be perfected nevertheless have had a beneficial effect on budget discipline and deficit reduction.

Mr. KASICH. Yes. There is a whole host of other things I would say Mr. Spratt we should do.

Mr. SPRATT. Your problem yesterday in the Armed Services Committee was that you were trying to increase direct spending for military pay, provide a pay raise. And, basically, all we have to pay for in the rest of our budget is discretionary spending.

Mr. KASICH. Well, see, the pay business is not direct spending. It is a hybrid.

This is another thing that I would argue people don't really know that much about. Pay is not an entitlement. It is really in the discretionary accounts. But, for whatever reason, it was—pay gets put into this hybrid that is really discretionary but gets reconciled, gets included in reconciliation.

There is about \$40 billion—I think it is \$43 billion in this hybrid type of spending that we deal with. So what I was trying to do—

Mr. SPRATT. It is really a diversion. It is one of those complex problems. We can still work it out.

Mr. KASICH. Well, what I wanted to do yesterday, Mr. Spratt, was to say that I want to pay for the military pay raise, but I want to pay for it out of another discretionary account, out of appropriation bills.

Mr. SPRATT. Out of 050. You want to go into some other—

Mr. KASICH. Exactly. And I am prohibited from coming to the Rules Committee and presenting a proposal that would specifically say what I would cut in order to make up for the pay raise that

we give because of this Berlin Wall, because we don't get to the appropriation bills until later.

So when appropriation bills come, the only thing I can do is slash it—

Mr. SPRATT. You are not really prohibited from doing it. It is just that the opportunity for doing it has passed. We had that debate. You had it in this committee. We adopted a resolution on the floor. Now we say you cannot back-slip. You cannot back-pedal. We decided what the allocation of 050 is.

Mr. KASICH. The incredible thing is we passed the budget resolution, Members went home, and now the Members are in the Ways and Means Committee. There are a lot of them under fire trying to figure out what to do. And their flexibility to try to reduce the deficit is limited by the 1974 Budget Act.

I don't think there would be anything wrong with somebody saying, well, you know what? I think we cut too much out of the military, and we can make some savings in another area now that we have had a chance to look at it, and we should be able to reach over here, fix something else and bring it back to fix the military.

Mr. SPRATT. That is really a different problem from what we are talking about now. Maybe that is a problem that can be addressed in looking at the budget process, but today we are talking about do we extend PAYGO, and I suppose you support that extending it from 1995 to 1998.

Mr. KASICH. Yes.

Mr. SPRATT. Do we extend the discretionary spending caps? You support that?

Mr. KASICH. Yes.

Mr. SPRATT. The other question is, is there a way we can control budget entitlements? Because the missing piece in the whole puzzle is some sort of process for disciplining in the outyears what we intend to budget for entitlements.

Mr. KASICH. That was a debate—

Mr. SPRATT. What is your proposal? Could you lay out for us how you would budget or cap or limit or discipline entitlements in the fiscal years between now and 1998?

Mr. KASICH. One of the ways you could do it, Mr. Spratt, is you would say that, for example, if Medicare is growing by 12 or 14 percent, next year we want it to grow by 9 percent, the year after that we want it to grow by 7 percent, and the year after that we want it to grow by 4 percent.

I don't know if that is the exact number we should do, but that is the concept that I have. And what it does is it forces you to make decisions but recognizes you cannot go from 14 percent to 4 percent in one leap. Because if you try to do that, then you are really creating a—you are creating a big disruption.

Mr. SPRATT. Would you propose to have this ascending cap on individual programs or on entitlements in the aggregate generally?

Mr. KASICH. Well, I would probably think we would need to do it. Take, for example, health. We probably should do it in the health area for one and maybe in the other area. But I am kind of off the cuff now.

What I think the real answer is is that we have to get the people who are most intimately involved. We should have the Budget

Committee, we should have the Energy and Commerce—we should have Energy and Commerce—we should put some restraint on there that forces us——

Mr. SPRATT. Suppose we did this? Suppose we took the PAYGO route—and right now the PAYGO rule applies to intended increases in benefits and intended decreases in tax, tax cuts, tax expenditures that diminish tax revenues. Suppose we extended the PAYGO rulings to unintended increases and benefits, that is, benefits that we had not projected above a certain baseline for 1994, 1995, 1996, 1997, 1998. To the extent that entitlements individually in certain programs or in the aggregate exceeded what we had intended, then we had a mandatory reconciliation process with a PAYGO rule applicable, meaning that we would either pay for it with added revenues or pay for it with diminished benefits.

Mr. KASICH. I think it is an interesting idea. But let me tell you——

Mr. SPRATT. You would add revenues to go along with the idea.

Mr. KASICH. Let me tell you another interesting fact, and I did not have it in my testimony today because I just learned it yesterday. Inflation, I am told—and just inflation—is accounting for about 40 percent of the entitlement increases. I mean in the area of health.

That is amazing, because it says, even if you want to cap it with inflation and demographics, you may begin to deal with 60 percent of the problem, but 40 percent of the problem is being driven by a very high medical inflation rate. And so it complicates your problem even more. It begins to force you—what it really does is begin to force you into some real fixes of the fundamental system.

Mr. SPRATT. The 5-year budget projection in the budget resolution we adopted for entitlements provided for entitlements to grow in terms of budget authority by 26 percent growth. Could you agree to codify that, sort of, provided that baseline would be the baseline we would work from?

Mr. KASICH. You know, I can't—I would have to go over it, Mr. Spratt. I would have to look at that proposal.

But you see these are the kinds of things I think we have to think about when we start going—if we go beyond PAYGO and do caps.

Like I say, I am for this concept of moving that down the road, but I don't think we should lock ourselves in stone in terms of how we do it. I think we have to look at innovative and imaginary ideas, and I think PAYGO is one element that can be helpful, but I think there are others, that we have to be careful and examine and put into place.

Mr. SPRATT. Thank you, sir.

Mr. CONYERS. The Chair is pleased to recognize the ranking member of the full committee, minority, Mr. Bill Clinger.

Mr. CLINGER. Thank you, Mr. Chairman.

Mr. Kasich, thank you. I just want to commend you as being a very effective, articulate advocate for Republican budget principles and commend you on the very, very credible effort that was made this year by you and the Republican members of the Budget Committee in offering alternatives which I think made a lot of sense to a lot of us and did not rely, as we are now having to do, on mas-

sive tax increases to accomplish the same goal. So I think you deserve a lot of credit for that effort.

I am sorry I was not here to hear your statement and maybe you have already addressed this question, but we now have a proposal for a trust fund as a means of isolating or building fire walls, if you will, around the use of tax revenues. We have only had this on the table for a day, but, at first blush, have you reached any preliminary conclusions as to whether this makes sense?

Mr. KASICH. Well, part of the problem is that if you say you are going to take cuts in taxes and put them over here on this side of the ledger but you are not going to do anything—and you will say all of this will be used to reduce deficits, while at the same time you are driving the engine of deficits, then you are just—it doesn't solve anything. It doesn't fix anything. It does not have any teeth. So all you are doing is separating out your funds. And I don't think that that is effective, and it gets back to if you are going to cut the deficit you have to cut the deficit.

At this point—let me say this to you. I think the American people are far more willing to accept tax increases and use tax increases to reduce the deficit than they are to have tax increases for additional spending. I just don't know—I don't think this proposal does that when you have—I don't know—\$182 billion in new spending in the Clinton budget, as I recall, and then you put the taxes over here and say we will pay for the deficit but you don't control the spending. What the heck have you done?

What you may further do, I am afraid of, is you further create credibility problems in the minds of a public that is already believing that—that is already sour on this institution. I mean they already don't trust us.

So I think that this trust fund business either should be worked with some teeth in it—now, Mr. Walker has a proposal that creates a check-off that does have teeth in it, that if you check off money to pay down the national debt, then we are forced to reduce spending on the operating side. That has some real teeth in it, and maybe they should talk to Bob Walker about his ideas. I think that has some appeal to people. I think a lot of people out there would like to start paying down the national debt, but you cannot pay down the debt while you are building up the operating deficit.

So the Walker bill would say, any revenue you would normally send to operate the budget, if you put it in the deficit reduction or in retiring the national debt, you have to offset it in your operating budget. That has teeth. And maybe they should talk to Bob Walker.

I tell you, a President Clinton/Bob Walker duo would be more surprising than Dellums/Kasich.

Mr. CONYERS. I thank the gentleman.

Mr. CLINGER. I just have one other question, if I might, Mr. Chairman. I thank you.

I don't know your feelings about this, but a lot of us have talked about a capital budget approach over the years on the grounds that, under the present system, we don't really know how much we are borrowing just to run the day-to-day operation of the government and how much we are borrowing to create roads and so forth,

more investment-type activities that are represented by the capital side of the budget.

And it also, I think, has merit as a planning device to see what are our real needs out there. Do you have any views on capital budgeting?

Mr. KASICH. I think that it is a slippery slope when you get into this question of investment. Because one person's investment is another person's pork. I just think we have to be careful about this concept of investment. I thought the Highway Trust Fund was designed to kind of emphasize these capital improvements.

But one of the other problems that we have is that we have a triangle now in the government where budget people and analysts and policy people don't like to talk to one another because they may get a bad conversation. And why do I bring that up? Because I think that the system is broken, and I think that reform of this 1974 Budget Act, the kind of ideas you are talking about with the capital budgeting, what John Spratt is talking about in terms of some kind of enhanced—some kind of a cap or restraint system on entitlements, what does all this mean?

This all means—Mr. Cox's reform proposal, that has received a lot of support. It shows that people are not happy with the status quo. And we should sit down and make a commitment that we are going to overhaul this system.

I can't think of anybody who is better—that would be better at overhauling this, who would be willing to take on the very interests than John Conyers. He would be willing to tell people, I am sorry but we are going to have to do this. And I think maybe we should push for it. Maybe we should set up hearings and deadlines and recognize that no one is very happy with this. And maybe we should do it as a Congress.

Mr. CLINGER. Thank you, Mr. Kasich.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much. You have consumed a great deal of time, but you have said a lot of things that we needed to hear. And, like Mr. Spratt noted, we are in the process of sorting this out in terms of some specific direction, and this committee is going to weigh in and try to come to as much agreement as possible.

You know, this is not going to be accomplished in a vacuum, not by me alone nor by yourself alone. It is going to take a number of other people working with whatever plans we all put forward, and it is in that spirit that I am glad that you started off the testimony, Mr. Kasich.

Mr. KASICH. Well, Mr. Conyers, one of the things that I have always felt was important is that you come to closure on a lot of different issues. I think we have a tendency, as any group of people trying to make a decision, have difficulty coming to closure because they don't know where they want to end.

Maybe if we can be convinced that there needs to be some fundamental changes we will get them done. But we have to make up our mind that we need some, and we are going to get there come hell or high water. And I would like to work with you to do that.

Mr. CONYERS. Thank you very much.

Mr. KASICH. Thank you.

Mr. CONYERS. The Chair is pleased to call the chairman of the House Committee on the Budget, the subcommittee chairman on Banking, former speaker of the House in Minnesota and one who has been quoted and misquoted at great length throughout these budget proceedings, Marty Sabo.

We are delighted to have you here today.

Mr. SABO. Thank you, Mr. Chairman, members of the committee, it is a pleasure to be here.

I must admit that as I looked up at your name tag there, I was shocked to look up and see the name Sabo and see it on the minority side of the rostrum.

Kevin, good to see you, even if you are on the wrong side of the aisle. I am just curious, my background is Norwegian. Is yours the same?

Mr. KEVIN SABO. No. It is Hungarian.

Mr. SABO. They probably dropped a z.

Mr. KEVIN SABO. Yes.

Mr. SABO. I was wondering if I had a relative up there.

Mr. CONYERS. Well, a Sabo is related no matter what country they come from.

STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. SABO. I will make a few comments and then open it up for whatever questions you have.

Let me put where we are today in the context of what we are dealing with in 1993. And I just have to say that, fundamentally, the problems we face in dealing with budget priorities and dealing with the deficit, dealing with economic policy and economic growth in this country are not caused by a process. We have a fundamental problem caused over the years by lack of agreement on substance. And all the change in process in the world are not going to make up for a lack of agreement on substance or the willingness to do substance.

The fact is, this year we have before us a very comprehensive economic program from President Clinton. One of the components of that program is the largest deficit reduction program over a 5-year period that has ever been proposed to Congress.

We are in the process of moving that program through the Congress. The first step was to pass a budget resolution which sets the broad guidelines for the policy that we are going to follow. That is a meaningful act, and it has real numbers in it, real instructions to committees on what they have to do in the reconciliation process, and real numbers to appropriations for caps on discretionary spending. Those caps have gone to the Appropriations Committee.

We are now going through the reconciliation process where individual committees are making their decisions how to achieve the deficit reduction envisioned in the budget resolution. That is an appropriate process. I would not begin to suggest to you that those of us who serve on the Budget Committee have all the wisdom that is dispersed into the various committees of the Congress. The committees have discretion on how they meet those numbers, but we expect them to meet them.

All the reports I am getting from various committees are that they are on track to meet the deficit reduction targets assumed in the budget resolution, maybe in a fashion different than the President recommended, maybe in a fashion different than assumed by those of us on the Budget Committee, but they are getting there. Those numbers are going to be achieved.

The question you really have before you is, how do we make sure that those judgments that we are making in the budget resolution and the reconciliation bill are not simply things that apply for this year but also apply into the future?

Two key ingredients of the 1990 Budget Act clearly need to be extended: One is extending the discretionary spending caps, which currently go on through 1995 through 1998 to represent the 5-year scope of this bill. Clearly, that should be done.

The second issue is what you do with PAYGO. PAYGO clearly has worked. It says that if you make policy changes in the future you either have to have additional revenues or make corresponding cuts in other programs to pay for them. Frankly, that has worked very well and needs to be extended.

The other thing we have to do is rebase PAYGO so that, when we finish this process this year, the credits to committees for doing PAYGO is back to zero. Because, theoretically, as PAYGO operates, as you make cuts in entitlements or increase revenues, it gives the committee specific authority to use those credits in the future. Some committees have credit banked from previous years.

We will make significant savings in reconciliation this year, and, clearly, when we finish that process, we have to make sure we rebase PAYGO at zero so that all of those savings are not available for additional expenditures in the future.

Those are the key ingredients where, I think, there is broad-based agreement and clearly should be done.

The question has come up on entitlement caps. I would urge the committee to examine them but to examine them with caution. They are proposed for a variety of reasons.

I suppose one you have to go back to what happened in 1990. The 1990 budget agreement had the discretionary caps, and the PAYGO provisions. Still, the deficit today is substantially higher than what was projected in 1990. The fact is that those higher deficits today are not related to the enforcement mechanisms we put into that act in 1990. The discretionary caps did work. PAYGO did work.

All the variations from 1990 to 1993 have nothing to do with these budget waivers people talk about. Policy changes account for only about \$2 billion of the difference.

The budget waivers are basically technical procedural things. They have no significant impact on discretionary spending or reconciliation spending. That is just a side issue that deals with the mechanics of operating the House.

Where you do have real problems is that several things happened after 1990. The economy changed. We lost money and revenues simply because the economy did not grow as fast as expected.

Second, there were estimating errors made as we projected the cost of programs forward. What are called technical changes emanating out of them, happened in both OMB and CBO. Other

changes, in some cases court decisions, changed eligibility for programs, not legislative or executive action.

All of these things added up to substantially increasing the deficit from what had been projected.

As one looks at a variety of entitlement programs, some are not going to vary much. The number of beneficiaries are fairly clearly understood. Benefits go up by inflation. They are not likely to vary much from what is projected.

You have others that operate in a countercyclical fashion, and I think you would want to be very careful before you put any caps on them. Those programs are there to benefit the individual, but they are also there for economic benefits, to make sure you lessen a downturn in the economy.

And then there are others where costs escalate faster than what we had assumed, and, frankly, the big ones are health care. And you need to look at that issue but proceed with caution.

I think what concerns some people is that, as we make our deficit projections for the future, they are skeptical about the projections we made for future costs of health care programs and want to cap them at those levels, not at some artificial level below current policy.

Look at it, ask questions, but be cautious and be careful would be my suggestion to the committee. And, as you do that, we will want to continue to work with you.

There are a whole series of technical amendments one has to make in bringing the Budget Enforcement Act of 1990 up to fit 1993, and we are anxious to work with you on that.

But when it comes to the core we need to extend to the discretionary spending caps through 1998, extend PAYGO and rebase it at zero when we get through with the policy decisions of this year.

I'll be happy to respond to any questions.

Mr. CONYERS. Well, thank you. Chairman Sabo, you and I have worked closely together. Our committees have, too. My predecessor on this committee, Chairman Brooks, has worked very closely with your predecessors in budget. And I see no reason for that to change.

And we thank you for your testimony.

Mr. SABO. I thank you, and we are anxious to continue that cooperation.

[The prepared statement of Mr. Sabo follows:]

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET

NEWS

WHAT SHOULD BE DONE ON BUDGET ENFORCEMENT IN 1993

Martin Olav Sabo

Subcommittee on Legislation & National Security
of the Government Operations Committee

I. Introduction

Before we enter into a long discussion of budget enforcement, I think we should remind ourselves why we want budget enforcement in the first place. I think most of us agree that the purpose of any budget enforcement measure is to ensure that we honor the promises we make when we adopt a budget resolution.

There is a great deal of frustration about the so-called "failure" of the 1990 Budget Agreement. After all we were told that if we voted for that package the deficit would be down to \$170 billion in 1993 and \$29 billion in 1995, when -- in fact -- it is now running at \$310 billion for 1993 and projected to be \$255 billion in 1995.

What went wrong?! Obviously, many things but most of them could not have been changed with different enforcement mechanisms. That doesn't mean we shouldn't review our enforcement system. But we should be careful in the process of that review to identify the real culprits. I think one of the worst things that could happen now, is for us to make promises to the American public which cannot be kept. That is why I want us to be absolutely clear about what we are doing with whatever enforcement changes we make.

II. What is the current situation?

On closer examination, I think people would be amazed at how well enforcement of the 1990 Agreement worked in accomplishing its objective -- that is, defining a limit of spending and living within that limit. One glaring exception to this is in the area of health care where medicare and medicaid expenses running \$32 billion over estimates in 1993 and \$60 billion over estimates in 1995. Clearly, we have a special problem here as does every other large organization in the country. We need to understand, however, that these were not legislated increases but rather costs that exceeded our estimates. I hope we will be able to address the problem of health care costs in a broader fashion later this year.

But our budget is far more out of whack than the \$32 billion of health care cost overruns. So what is the problem?

First, the 1990 Budget Agreement was sold with economic assumptions that turned out to be totally out of line with reality. Then the economy went into recession rather than growing and was even worse than the most pessimistic would have predicted. This resulted in a shortfall in revenues of \$78 billion in 1993 alone.

This year, we are trying very hard not to repeat that mistake! In fact, I am working now on building more independent forecasting capability within the House Budget Committee so we will not have to rely entirely on OMB or CBO for this information.

Second, because the 1990 Act was so off in its view of the economy, not only were revenues short, but the cost of countercyclical programs was understated and long term interest costs were understated. Some have suggested that this problem could be solved by a broad-based entitlement cap. I would caution people about that, since the purpose of many entitlement programs is to protect, not only vulnerable individuals, but also the economy from the dramatically destructive dislocations that can occur in economic downturns. The worst mistake we could make would be to accelerate a recession because of good intentions to reduce the deficit. After all, the purpose of deficit reduction is to get the federal government's fiscal house in order so it can contribute to economic growth rather than detract from it.

Certain types of entitlement caps could have the very opposite effect of what their advocates intend -- i.e. that of exacerbating an economic downturn. So, while I remain open to discussions about the best way to deal with the problems of uncontrolled entitlement spending, I caution the advocates of a broad-based entitlement cap to be careful of unanticipated side-effects.

Third, we have the problem that the experts refer to as "technical". This is one that I find increasingly frustrating and we must improve on, but again it is not something that is easily remedied by budget enforcement. Rather, this requires a serious rethinking about the way budget information is developed and used in this process. Later this summer, after action on reconciliation is completed I intend to start a series of oversight efforts on the Congressional Budget Office so we can all learn more about how these estimates, which we are so dependent on, is developed.

And -- if the problem of "technical reestimates" is fed by program design, then we need to have a very clear understanding of that fact when we design new programs. We also must stop giving people unrealistic expectations! I think the President has made great strides in this area with his use of realistic forecasts in this year's budget, and I intend to keep monitoring them as the year unfolds so Members of the House can have the most honest assessment of the federal budget we can get.

III. What do we plan to do?

It is clear that we need to have some type of enforcement language in this year's reconciliation bill. First we need to extend the existing caps on discretionary spending out to the full five years of the budget resolution we passed in March. (The current caps will expire in 1995).

We also need to extend and rebase PAYGO. There is currently some room to spend more money on the PAYGO scorecard and we need to rebase PAYGO to zero starting with this bill. Then any future increases in spending outside the discretionary area, will have to be paid for either with offsetting cuts or new revenues.

We need to extend the emergency provisions for extraordinary events such as wars, natural disasters, or extreme downturns in the economy. And there are a variety of small technical matters that could be adjusted.

Beyond these areas, we are moving into uncharted and untested territory and it will be necessary to work with a variety of different Members from different perspectives to arrive at any passable agreement. I remain open to suggestions from all the members of the House and I will continue to meet and listen to the concerns of anyone who wants to discuss the issue.

IV. Conclusion

In conclusion, I would like to say that I will be happy to work with the members of this committee, as well as others who are interested in developing any type of budget enforcement which would help us meet our goals and improve the budget process.

Mr. CONYERS. The Chair recognizes Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Mr. Sabo, we got involved in a rather intensive discussion relative to the budget process. Having spent 12 years very heavily involved in budgets at other levels of government, when I came to Congress 12 years ago I was aghast at how our budget is handled, not by the persons involved, but by the system. And I came to the conclusion very early that the budget system, as it is now practiced, was not successful in the past, it is not successful in the present, and won't be successful in the future.

I don't know if you agree with that or not, but I would be interested in any comments you might have relative to the process.

Mr. SABO. The process doesn't bother me fundamentally. I believe our problem has not been process.

Frankly, we have had some very fundamental changes in our economy that I don't know that we have ever adjusted to policywise starting with the oil revolution of the early 1970's. We had problems that grew in our economy. In my judgment, the Congress made some very wrong decisions in 1981. These decisions took an economy and a budget with some real problems and may have escalated the problems that emerged from the 1970's.

And we had an absolute explosion of deficit spending in the 1980's. That was not caused by a process. It was caused by policy decisions made by the President and Congress. And all the process change in the world is not going to change the dynamics of making policy. We need to try to develop an economic policy that brings us into the 21st century and that brings the deficit under control.

In my judgment—we have the most comprehensive program that I have seen in my 14 years here to deal with both economic policy and to deal with the deficit before the Congress today represented by President Clinton's program. The question is, can we pass it?

We are moving in that direction. We have not made final votes. If we can ultimately pass it, I think we make a very fundamental step forward because we come to agreement on substance, not because of process. Do I think it is perfect the way it works around here? It could be.

I spent lots of time in the legislature before I came here. I served 6 years as speaker. I spent a significant part of my time as speaker of a State legislature, probably doing what I am doing now as Chair of the Budget Committee, because we did not have a Budget Committee, making sure that pieces got coordinated and fit together.

I suppose if one person is doing it, it is neater. That is not likely to be the process that is ever going to occur around here, but the basic relationship between the Budget Committee, appropriations, authorizing committee is not all that complicated. We set the guidelines in budget resolutions. We expect them to be implemented by individual committees. They have more expert knowledge.

But when you get to the core of it, you have to have some agreement between the President and the Congress on fundamental fiscal and economic policy. We had this division and did not achieve this in the 1980's. Hopefully, we can achieve it in 1993. I think it is incredibly important we do.

Mr. McCANDLESS. I think you can throw in the 1986 tax bill along with the other things you mentioned as having created some of our problems, but that is a personal opinion.

What I was trying to do is not solve the deficit by changing the system. That was not my intent. The problem I have here is that everyone assumes that what is going on at the current time within the agency, the Department or the Bureau is as efficient as it can be. And, therefore, because of inflation or because of something else, we have established that this particular agency is entitled to another 7 percent in terms of its budgetary process over and above what it got last year. But we are satisfied with last year even though we didn't examine the ingredients that made up last year's budget. That is an element here within the framework of the Federal Government that I take a serious exception to.

Mr. SABO. Frankly, I disagree. I don't think that is what happens. The appropriations for various agencies do vary. That is not in any fashion automatic. They go up and down. If you come to the basic question, can we do a better job of administering the Federal Government, I think the answer to that is an absolute, strong yes.

One of the most important things that President Clinton can do is the Gore Commission and the committee that is looking at streamlining the Federal Government. I, frankly, would have to say I think there are not many well-run Federal agencies after the last 12 years. And they have not kept up with modern administration. And I think those need careful review, both how we run government, and how we regulate through government. I think that is a core issue for the Clinton administration to deal with that goes beyond this year. It clearly has long-term implications on their budget policy and on their budgets.

They reflect some of that in their budget for this year, but I think they have to spend an incredible amount of time simply on the management of the Federal Government in the next couple of years. It is not a jazzy issue to deal with but I think fundamentally very, very important.

Mr. McCANDLESS. I don't want to sound partisan, but I think you could add to that 12 years another 12 or 15 years and not miss by too much when it comes to the management problem of the Federal Government.

Mr. SABO. Could be. Clearly, my sense is that a good number of State and local governments, in terms of how you handle new information, how you process data all of that are ahead of the Federal Government today.

Mr. McCANDLESS. Well, if there is an interest in pressing the issue of budgetary process, Mr. Chairman, I would love to be involved because that would be something that I feel I can contribute to. Thank you.

Mr. SABO. Thank you.

Mr. CONYERS. I would be delighted to keep you in the loop, Mr. McCandless.

The Chair recognizes the gentleman from California, Mr. Waxman.

Mr. WAXMAN. Thank you, Mr. Chairman.

Mr. Sabo, I very much appreciated your presentation. What you are recommending to this committee in terms of any changes in the

budget process is that we continue the existing rules with regard to PAYGO and other recommendations that we have seen from the Clinton administration, is that correct?

Mr. SABO. I think you have to extend the caps through 1998. I think you have to extend PAYGO, and you have to rebase PAYGO when we get through with the process this year so that there are not accumulated credits and that the savings of reconciliation both on spending cuts and tax increases are, in fact, there for reducing future deficits.

Mr. WAXMAN. Some of our colleagues are recommending that we put caps on entitlements, caps that would say if entitlements increased beyond what people expected through projections there would have to be automatic reductions in those entitlement programs. Do you favor that approach?

Mr. SABO. Not at this point, but I would suggest to the committee that I think you should listen carefully to those folks. There are a variety of people proposing caps. There are some suggesting them as sort of an artificial way of driving policy. I think clearly those are not going to be adopted.

There are others who are legitimately concerned that the projections we are making for future years may not be accurate and say they want some protection against that. I don't know how you quickly remedy that fear. I think based on history, they have some legitimacy to the fear. So we need to talk to each other, I do not think it serves a useful purpose to ever dismiss people out of hand. I think it needs to be talked through, thought through and then we should see if there is some way to deal with that problem.

Clearly, there are certain programs that are countercyclical. I think caps there could be very counterproductive, aside from their impact on individuals, in terms of their economic impact. But there are other places, and health care is clearly the biggest area, we have not been very good at projecting future costs that go beyond changes even in the economy.

Mr. WAXMAN. Isn't that why the Clinton administration has taken on this whole issue of health care reform? They have concluded that simply reducing the Federal expenditures, in the Medicare and Medicaid programs we will shift the costs onto the private sector, insured population, but not deal with the overall cost of inflation in health care itself.

So, therefore, President Clinton has indicated one of the major things he wants us to do after this budget reconciliation process is to address that question of health care as a system so we can control costs.

Mr. SABO. I think that is an accurate description of what the President is saying.

Mr. WAXMAN. I would say that you are right in not dismissing anybody that has concerns about entitlements or about the deficit. We all have to be concerned about the deficit and what it is doing to our country. But I would hope that those who are looking for an answer out of frustration with increases in costs in entitlements don't dismiss the fact that arbitrary caps would force reductions in these programs that are going to do a lot of people harm.

For example, the two big areas of increases are Social Security and the health programs. All the other entitlement programs have

been cut, and I would think that some of those same ones that have been cut in the past will be cut in the future unless we are going to go against Social Security.

I don't hear those people saying they really want us to go against Social Security. If the Medicare program is the issue, it seems to me health care reform is the answer.

Mr. SABO. I would partially agree and partially disagree, I guess in my own judgment, and I do that not as someone who serves on those committees. I think it is clear the costs of Medicare and Medicaid are driven substantially by what happens in the system in general, and I hope that the dealing with overall health care reform deals with those cost increases.

On the other hand, I have always also had problems somehow with the assertion we cannot do anything about the cost of delivery on Medicare or Medicaid unless there is overall reform. Now, I don't think that is accurate either.

Mr. WAXMAN. I hope you are not saying that unless we have caps on future growth in these programs that we cannot do anything to try to make the system more efficient.

After all, you know what we have done just this year to produce an enormous amount of cuts in Federal dollars going into that program. We are constantly looking for ways to make Medicare and Medicaid more efficient while at the same time we wait for the health care reform initiative to deal with the problem overall.

Mr. SABO. I fundamentally agree with that, but I do have people suggest to me we cannot do anything with those systems unless the big reform is there. I hope that by the year's end we pass this big reform.

I have spent some time in one of my other roles, in Defense Subcommittee, on a health care reform in DOD. We think some of the things we have done there have lessened cost, and we have to make sure that State and local governments, particularly on Medicaid, are moving aggressively. In my State I think they are, and there is a lot we don't know in that area.

Mr. WAXMAN. Your State will still be affected.

Mr. SABO. I understand that.

Mr. WAXMAN. If we do the approach that says we are going to do something with all the entitlements, put a cap on them, then we have to choose between programs like Social Security and food stamps and Medicare and Medicaid and all these others.

Now, there is just a basic inequity in all of this because the programs that are clearly going to lose out are the programs that affect exclusively or primarily the poor. They don't have the powerful constituency behind them. That is one reason that there will be an inequitable result.

The other is we are not putting in an automatic increase in taxes in any way because the deficit is not going down the way we would like, but we are putting automatic caps on entitlements. I fear that also works against the people who have to rely on those government entitlement programs for very basic necessities of life to live on and get health care and pay their rent, get food for their children.

Mr. SABO. Mr. Waxman, I find myself being put in the position of listening to people and I am trying to define a position some peo-

ple are taking which does not necessarily reflect mine, because I think it is important to hear them out. I have been trying to do that, and I have my own biases that are probably not much unlike yours, but I have also discovered in this process that it is important for one to listen to others concerns and I never assume I am totally correct with my biases.

Mr. WAXMAN. I think that is always wise advice. Let's recommend it to everybody involved.

Mr. SABO. There are certain suggestions for caps that I would react to negatively very quickly. There are others that I think are before this body today because of the very legitimate concerns over the problem of entitlement growth viewed from history. We better look at them carefully, is what I am suggesting to the committee.

I am also suggesting if you decide to proceed, do it cautiously, because this can have lots of ramifications.

I have no particular recommendations to you on it. What I am saying is, though, is that there are people with very legitimate concerns and I think you need to hear them out and see where if anyplace we can find agreement.

Mr. WAXMAN. Thank you.

Mr. CONYERS. Thank you very much.

Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Mr. Sabo, thank you for your testimony. Let me ask you, the budget resolution we adopted in accordance with the budget procedure carries out the projections for all programs over 5 years. Are you reasonably comfortable with the 5-year projection for entitlement programs?

Mr. SABO. At this point, I am. If I could predict the future for the next 5 years with absolute certainty, I would expect I could leave this place and make a fortune.

Let me put it this way: We keep monitoring these numbers in the Budget Committee staff. We want some judgment independent from OMB and CBO. Our judgment is that the economy seems to be on track with where CBO thought it was going and the basic economic assumptions that the administration is using. Those were fairly cautious economic assumptions.

The economy, despite its problems, still appears to be on that track. Interest rates which drive expenditures appear at this point to be below what the administration was projecting in their budget.

At this point for the near future, we would think that interest costs would probably be less than what was projected in our budget resolution.

Mr. SPRATT. The number I have, and it may or may not be right, because I have not checked it, is a trillion five billion for budget authority for entitlement programs, in fiscal year 1994, rising to \$1.259 trillion in fiscal year 1998, which is about a 26 percent increase. That accommodates Social Security demographic growth, the growth of the beneficiary population. It accommodates the annual COLA for Social Security. It accommodates a \$7 billion increase in food stamps, certain entitlement programs will be expanded, and as I understand it, it accommodates a pretty substantial growth which we have to expect and plan for in Medicaid and Medicare, except for about \$45 billion that Mr. Waxman and Mr.

Stark have taken out in reconciliation process that still has to be finally settled. But it still allows for pretty substantial growth in both those programs.

Suppose we somehow codified that out-year projection, the entitlements rising from a trillion five billion to \$1.259 trillion and simply provided—not simply—and provided that we would have to reconcile to that out-year projection each year over the next 4 or 5 fiscal years? If we didn't hit it or come within a certain range of it, say 10 percent, then there would have to be some reconciliation and we could extend the PAYGO rule, as I proposed to Mr. Kasich, so that you would either have to—you would have to confront the issue: Do you want to cut benefits further or increase the revenues to pay for it?

In any event, you have to reconcile it so that you don't contribute further to the deficit.

Do you think that is workable? Could we pull out, say unemployment insurance, the things that are clearly countercyclical and simply leave them out of the equation?

Mr. SABO. Let me make one caveat on the numbers. My understanding is inflation may be somewhat higher than what was projected and that would have an impact.

Mr. SPRATT. So you would adjust the number according to the variable?

Mr. SABO. Mr. Spratt, I would respond to you I think the same way I responded to Mr. Waxman. I would categorize what you are talking about as a serious proposal that needs careful exploration, informing folks like Mr. Waxman, and I recommend involving the Ways and Means Committee, that also has jurisdiction over a significant amount of these programs.

My bias would be not to do it, but I don't think it is a proposal that should be dismissed out of hand and it should be dismissed between folks like yourself, Mr. Waxman, and Mr. Rostenkowski.

I think entitlement cap proposals come about because of what happened in 1990. I don't think that is necessarily going to repeat itself. So I would hope folks who represent that point of view would seriously visit with people like Mr. Waxman and Mr. Rostenkowski, who frankly have much more detailed knowledge on the difficulties of doing it and the specifics of the problem than I pretend to have. And that is where I think that dialog has to occur.

Mr. SPRATT. I think what you are saying, and I feel the same hesitation in proposing the idea, is that Mr. Waxman has good reason to be aware of this proposal, and he has seen what happens when we cram lids on spending programs and we shift costs from the public sector to the private sector, we don't really deal with the issue.

On the other hand, I think by virtue of the fact you are saying it is a serious idea it has to be thought through, you recognize that the biggest piece in the whole budget process is entitlements.

Mr. SABO. Yes, and clearly that does happen through reconciliation, as Henry said very effectively earlier. We have significant reconciliation cuts that are part of the reconciliation process this year. They are not fun for anybody.

Henry's committee has heavy lifting to do and they are doing it that in many cases would prefer not to, and I think we have to rec-

ognize that fact and I think their sensitivity to be caught in sort of arbitrary situations for the future that is beyond control after they make their judgments, that clearly concerns folks.

Part of the problem of what happened from 1990 to 1995 are court decisions. Those are decisions that were not made by Energy and Commerce, or Ways and Means in terms of eligibility for certain programs. They have significant impact on the outlays from those programs. But what I would encourage people to do is not get locked into absolute advocacy or opposition positions and do some visiting with each other. I think that is what is needed.

Mr. CONYERS. Thank you, Mr. Spratt.

Chairman Sabo, we appreciate your coming before us. When the opportunity presents itself, take a look at H.R. 1200, the American Health Security Act.

Mr. SABO. OK.

Mr. CONYERS. And see how that might weigh in on reducing some of the rising costs in our health care system. Your conversation with us has been very enlightening and quite important.

Mr. SABO. I thank the chairman and the committee very much.

Mr. CONYERS. The Director of the Congressional Budget Office will take the witness stand as soon as we return from this recorded vote.

[Recess taken.]

Mr. CONYERS. We are delighted to have Dr. Robert Reischauer, Director of the Congressional Budget Office, again before the committee. Your prepared statement will be incorporated into the record; and I invite you to proceed in your own way.

Good afternoon, sir.

STATEMENT OF ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. REISCHAUER. Thank you, Mr. Chairman.

I appreciate this opportunity to appear before you to discuss some of the budget enforcement changes that could be included in the upcoming reconciliation legislation. I will submit my prepared statement for the record and what I will do this afternoon is spend a few minutes summarizing four of the lessons that I think we have learned about enforcement from our experience over the last 7 years and then point to what they suggest for the work that lies ahead.

As you know, we have tried two very, very different approaches to forcing the deficit down, the first being the Gramm-Rudman-Hollings approach and the second being the Budget Enforcement Act approach. We have, I believe, some lessons from this experience. The first of these I would argue, is that budget procedures are much better at enforcing deficit reduction agreements, as the Budget Enforcement Act has done, than at forcing the President and the Congress to reach such agreements.

The Gramm-Rudman-Hollings experience proved, I think quite convincingly, that procedures alone cannot force the President and the Congress to come together on difficult measures that they don't want to undertake.

The second lesson is that enforcement procedures work best if participants are only held accountable for results that are under

their direct control. Under the Gramm-Rudman-Hollings regime of fixed deficit targets, economic and technical factors that were beyond the control of policymakers were partially to blame for the deficits' exceeding the targets, and this caused, I think, a lot of heartache and problem.

Moreover, it was impossible under that system to identify which budget participants were responsible when the deficit did run amok. There was no clear location of blame.

I think the Budget Enforcement Act regime offers a stark contrast to this. It has separate enforcement procedures for discretionary spending and mandatory spending and revenues. It has automatic adjustments for changes in economic and technical factors and, therefore, is a more responsible way of enforcing discipline.

The third lesson that the past has taught us is that to be viable, the enforcement process must be credible. Gramm-Rudman-Hollings lacked credibility because it promised results that were virtually impossible to achieve and because the enforcement mechanism that it relied on had all the subtlety of an atomic bomb. So many of the participants were skeptical that the trigger would actually be pulled on this enforcement mechanism.

Fourth and finally, the enforcement process cannot be too rigid. That is a lesson that we have learned. It must include a certain amount of flexibility or wiggle room, I think, to allow reasonable responses to unexpected events such as natural disasters, international crises, or a sharp deterioration in the economy.

This is precisely what the emergency provisions of the Budget Enforcement Act have allowed the Congress to do, and on the whole, I think the extent to which Congress has gone into the emergency pot has been very modest given the circumstances that have faced the Nation, the economic weakness and the other crises that we have faced.

The enforcement legislation included as part of the 1993 reconciliation bill should build on these four lessons. This suggests that the enforcement bill that you craft should extend the discretionary spending caps, should extend the PAYGO process, and should also extend the various temporary provisions of the Congressional Budget Act such as multiyear spending allocations and enforcement, which are necessary to weave the whole thing together.

Furthermore, fixed annual maximums for the deficit should be dropped especially if these maximums are going to be adjusted to reflect changes in economic or technical factors. In a sense, they are superfluous if we have the system that we have been operating under for the last 3 years.

Beyond this general framework, there are a number of design issues for which our recent experience offers no clear guidance. The first is the question of whether there should be a single cap on all discretionary spending or separate caps for different spending categories, as there were during the 1991 to 1993 period.

In other words, should we maintain that system of separate caps for defense, international and domestic discretionary spending? Multiple caps can be used to protect some category of spending from further reductions, they can also ensure that any further re-

duction in a given category's spending will wind up as deficit reduction rather than as increases in spending in some other area.

On the other hand, a single cap provides flexibility, which I think is important in an era of rapid change and a good deal of uncertainty, an era when we think our priorities might shift rather quickly. So you have to weigh these arguments.

The second issue is whether we should maintain the system of caps on both budget authority and outlays. If budget authority is capped, outlay caps are somewhat redundant because over time outlays merely represent the liquidation of budget authority and, therefore, are constrained by the availability of that budget authority.

Moreover, the system of dual caps has fostered a certain amount of distortion over the last 3 years, such as the obligation delays that were provided in some of the appropriation bills to delay the spendout and keep within the outlay caps, and the bias that has been injected into the system in favor of slow spending programs. Because the outlay caps have been the constraining caps for the last 3 years, to be able to use all the budget authority you have had to shift resources into those programs that have slow spendout rates.

On the other side, since the deficit effect of spending is measured by outlays not by budget authority, caps on budget authority alone might not achieve the discretionary spending reductions that are envisioned in the budget resolution for a particular year. The certainty that outlay caps provide allows a more accurate estimate of where the deficit is going.

A third issue that will have to be decided is the length of time for which the PAYGO mechanism is extended. If the PAYGO scorecard is extended only for a few years, it becomes easier to push the costs of tax cuts and entitlement expansions beyond the end of the PAYGO window. We have seen that already with the expiration of the current PAYGO regime, scheduled for 1995.

On the other hand, if the PAYGO window is extended for a very long time, say 10 years, the estimates of the impact of proposed legislation on the deficit become increasingly speculative. I say this with some humility because of course my office is responsible for making those estimates. We are fairly confident we can do this over a 5-year window, but we get a lot more queasy when we are asked to say what a certain policy change enacted today will do to spending in the Medicaid program in the year 2000 or 2001.

A reasonable compromise might be to extend the PAYGO discipline for 10 years but to use a 5-year rolling scorecard for enforcement. In other words, for this year the PAYGO scorecard would extend through 1998; next year it would extend through 1999; the following year through 2000, and so on. That would, I think, capture the strengths of both of the options that I discussed.

A fourth issue for consideration concerns the base that is to be used for sequestration under the PAYGO system. The current procedure, which has worked fairly well, subjects a rather narrow base of mandatory programs to across-the-board cuts if the PAYGO requirements are not met. A broader base, one that included all mandatory programs and automatic tax increases, might spread the

sacrifice more broadly. It might be more credible and build consensus for real actions to reduce the deficit.

A final issue involves whether we should establish a trust fund earmarked for deficit reduction. The purpose of such a fund would be to provide the public with some form of understandable assurance that the tax increases and spending cuts included in the budget resolution would actually reduce the deficit. Although it is not always apparent to those who go to sleep without their green eyeshades on, it is a matter of fiscal fact that any tax increase or spending cut reduces the deficit relative to the level that would have existed without that action.

But saying that deficit reduction has occurred is different from achieving a particular deficit target, as we know only too well from our experience with the 1990 summit agreement. And this implies that if we do establish a trust fund as part of this year's reconciliation bill, it should be made clear to the American people that it will not ensure or guarantee that the deficits projected by the budget resolution will actually come to pass.

Let me conclude in a somewhat somber vein by noting that this will not be the last time this subcommittee will have to deal with enforcement issues. While the budget resolution for 1994 represents a major step in the direction of deficit reduction, it does not constitute the whole journey. If the resolution is implemented in full, the deficit should fall from its current level of about \$300 billion to around \$190 billion by 1997, but then the deficit is going to rise and it is going to continue to rise.

What this suggests is that at least one more round of very significant deficit reduction and enforcement will be necessary before we get the deficit to a level that we are comfortable with.

That completes my summary, and I will be happy to answer any questions that the members have.

Mr. CONYERS. Thank you so much.

[The prepared statement of Mr. Reischauer follows:]

CBO TESTIMONY

Statement of
Robert D. Reischauer
Director
Congressional Budget Office

before the
Subcommittee on Legislation and National Security
Committee on Government Operations
U.S. House of Representatives

May 13, 1993

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Thursday, May 13, 1993.



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SECOND AND D STREETS, S.W.
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Mr. Chairman and Members of the Subcommittee, thank you for inviting me today to discuss budget enforcement changes that may be included in the upcoming reconciliation legislation. I will make three specific points in my testimony.

- o The Budget Enforcement Act (BEA), which was designed to enforce compliance with negotiated deficit reduction actions, has been more effective than Gramm-Rudman-Hollings, which was designed to force future policy actions to meet fixed, arbitrary targets.
- o This experience suggests that the most effective means of ensuring compliance with the actions included in this year's reconciliation bill will be to maintain the general outlines of the BEA, including the discretionary spending caps and the pay-as-you-go process.
- o Although enacting the deficit reduction envisioned by the 1993 budget resolution represents an important step, those actions alone will not be sufficient to control the deficit in the long run.

HOW THE BUDGET PROCESS AFFECTS DEFICIT REDUCTION

Since 1985, the primary focus of the budget process has been on establishing rules specifically focused on deficit reduction. This role for the budget process is codified in two major laws: the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings) and the Budget Enforcement Act of 1990. The approach taken in 1990, when the BEA was passed, has been much more successful than that included in Gramm-Rudman-Hollings.

Gramm-Rudman-Hollings had a simple goal--to reduce the size of the deficit to specified levels each year until expenditures were in balance with revenues. If annual deficit targets were not met by enacting the appropriate amount of spending restraint or tax increases, automatic across-the-board spending cuts (or sequestration) were to take effect. According to the targets specified in the original legislation, the budget was to be balanced by fiscal year 1991. The first Gramm-Rudman-Hollings law was amended in September of 1987 to delay the target for budgetary balance until fiscal year 1993.

The deficit, of course, has not come down as promised by the Gramm-Rudman-Hollings legislation. In an effort to live within the short-term budget constraints, the President and the Congress evaded the targets by relying on

overly optimistic economic assumptions and outright budget gimmickry. This smoke-and-mirrors strategy enabled policymakers to appear to live within the annual constraints, while doing little to reduce the actual deficit. For example, the original deficit target for 1990, the last year the Gramm-Rudman-Hollings procedures were fully in place, was \$36 billion. The revised 1990 target, established in 1987, was \$100 billion. The actual deficit for that year was \$220 billion. The deficit for 1993 (the year in which the revised targets were to require a balanced budget) will probably approach \$300 billion.

The BEA created a quite different kind of process than Gramm-Rudman-Hollings. It was enacted to enforce compliance with the deficit-reducing actions agreed to at the 1990 budget summit, but not to force further reductions or to compensate for unrealized expectations about the economy. Moreover, the BEA focuses on controlling legislative policy actions that would cause the deficit to increase. Two separate procedures were set up to achieve this end. The first is the discretionary spending caps, which place limits on the level of budget authority and outlays through 1995. The second is the pay-as-you-go (PAYGO) process, which requires that Congressional actions affecting mandatory spending or revenues be at least deficit neutral.

By and large, the Congress and the President have lived within the BEA's constraints. Although the deficit outlook has deteriorated since the 1990 budget agreement, this turn of events is not the result of any failure of the BEA. The deterioration of the economy and technical reestimates of revenues and spending, especially for Medicare and Medicaid, are largely responsible for the increase in the projected deficit since 1990. That virtually none of the changes in the deficit outlook result from policy actions is a testimonial to the success of the BEA (see Table 1). The BEA did not, however, include any procedure to reconsider the rules were the deficit outlook to deteriorate.

The past seven years have provided an experiment in the efficacy of two very different approaches to using the budget process to reduce the deficit. Although neither Gramm-Rudman-Hollings nor the Budget Enforcement Act has resulted in the anticipated deficit reduction, several lessons emerge from the actual results under each regime. These lessons should guide any search for a process to enforce the deficit reduction actions included in the 1993 reconciliation legislation.

TABLE 1. CHANGES IN CBO DEFICIT PROJECTIONS SINCE THE 1990 BUDGET SUMMIT (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
December 1990 Projection	253	262	170	56	29
Policy Changes					
Revenues	-1	3	5	a	a
Outlays					
Desert Storm spending ^b	23	13	10	2	1
Desert Storm contributions	-43	-5	0	0	0
Other emergencies	1	2	5	1	1
Other discretionary appropriations	0	-2	-5	0	0
Entitlement legislation	<u>a</u>	<u>7</u>	<u>4</u>	<u>1</u>	<u>a</u>
Subtotal	-19	15	14	4	2
Deficit	-19	13	9	4	2
Economic Changes					
Revenues	-31	-58	-78	-90	-102
Outlays	1	-9	-31	-38	-34
Deficit	32	49	47	52	68
Technical Changes					
Revenues	-24	-38	-43	-39	-37
Outlays					
Deposit insurance ^c	-28	-108	-37	46	37
Medicaid and Medicare	7	19	32	45	60
Other major benefit programs	8	18	24	24	25
Debt service	-1	-2	a	7	18
Other	<u>-7</u>	<u>1</u>	<u>13</u>	<u>12</u>	<u>9</u>
Subtotal	-21	-71	32	134	148
Deficit	3	-34	74	174	185
Total	16	28	131	230	255
Current Projection	270	290	302	287	284

SOURCE: Congressional Budget Office, March 1993.

NOTE: The December 1990 projections appeared in Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," CBO Paper (December 1990).

a. Less than \$500 million.

b. Estimated; Desert Storm outlays are not segregated from other defense outlays.

c. Excludes changes in estimated interest paid by two deposit insurance agencies (the Resolution Trust Corporation and the Bank Insurance Fund) to the Treasury. These payments are intrabudgetary and do not affect the deficit.

- o First, budget procedures are much better at enforcing deficit reduction agreements (as the BEA has) than at forcing such agreements to be reached (as Gramm-Rudman attempted to do). The experience under Gramm-Rudman-Hollings demonstrated that if the President and the Congress are unwilling to agree on a painful deficit reduction package, a budget procedure is unlikely to force them to agree. Conversely, if the President and the Congress agree on and enact a painful package of spending cuts and tax increases to reduce the deficit, budget procedures that highlight and penalize deviations from that agreement can be effective.

- o Second, participants in the budget process should be held accountable for results that are under their direct control. The BEA contributed to that end by creating different enforcement procedures for discretionary spending than for mandatory spending and revenues. One of the problems with Gramm-Rudman-Hollings was that the fixed deficit targets made it virtually impossible to identify any budget participants who were responsible if the deficit was estimated to exceed the target. However, both

Gramm-Rudman-Hollings and BEA had flawed accountability structures in one sense, since they each exempted a great many programs from sequestration. In contrast, accountability is encouraged by having a large sequestration base; without such a structure, advocates of programs exempt from sequestration have incentives to resist policy changes that would affect their programs.

- o Third, any enforcement process must be credible. Gramm-Rudman-Hollings lacked credibility because it promised results that proved virtually impossible to achieve, and it invited evasion through phony estimates and budget gimmicks. The BEA is more credible than Gramm-Rudman-Hollings because it promises only to prevent legislative changes that would diminish the deficit reduction put in place by the 1990 budget agreement. In addition, the automatic sequestrations that enforce the BEA are credible because they are likely to be relatively small.
- o Fourth, the process must include a certain amount of flexibility to allow reasonable responses to unexpected

events. For example, the federal government often needs to engage in countercyclical fiscal policy or to respond to other emergencies, such as natural disasters or international crises. The BEA provides flexibility by establishing an explicit exception for discretionary appropriations, mandatory spending increases, or tax cuts that the legislation and the President designate as emergency requirements.

WHAT BUDGET PROCESS ACTIONS SHOULD ACCOMPANY THE 1993 RECONCILIATION LEGISLATION?

The most successful recent experience with long-term deficit reduction--the 1990 budget summit--coupled agreement on a specific long-term deficit reduction plan with a process to ensure that future appropriations for discretionary spending do not exceed the planned amounts and that future changes in mandatory spending programs and taxes do not dissipate the deficit reduction that has been enacted. To the credit of the President and the Congress, that same general process has been followed this year. The first part of the deficit reduction formula was achieved by enacting a budget resolution that included a plan for reducing the deficit. This plan will come

to fruition by enacting legislation that puts specific tax increases and spending cuts into effect.

Any enforcement legislation included as a part of the 1993 reconciliation bill should embrace the general guidelines of the Budget Enforcement Act. In other words, the bill should extend the discretionary spending caps and the PAYGO process. It should also extend various temporary provisions of the Congressional Budget Act, such as multiyear spending allocations and enforcement, that have strengthened the BEA. In addition, any new enforcement procedures should drop the fixed annual maximum for the deficit. In practice, the maximum deficit amounts included in the BEA have been irrelevant, since they have been adjusted to reflect changes in economic or technical factors. Beyond the general framework of the process, however, there are several factors to consider, including the structure of the discretionary spending caps, the enforcement window and sequestration base for PAYGO, and whether or not a separate deficit reduction trust fund should be created.

Discretionary Cap Issues

If the Congress chooses to enact new caps on discretionary spending, it must address at least two questions. First, should there be a single cap on all discretionary spending or should there be separate caps for different spending categories? Second, should caps exist on both budget authority and outlays?

The Budget Enforcement Act placed separate caps on domestic, international, and defense discretionary spending through fiscal year 1993, and a single cap on all discretionary spending for fiscal years 1994 and 1995. The Congress must decide whether to take one of these two approaches, or some other approach, in enacting new discretionary caps. This decision does not hinge on the economic effect of single versus multiple caps, but on other factors. Arguments in favor of multiple caps usually come from those who want to protect some category of spending (such as defense) from further reductions, or from those who wish to ensure that any further reductions in a given category are used for deficit reduction, as opposed to increasing spending in some other area. The argument in favor of a single cap hinges mainly on flexibility. Given current rapid changes, a single cap would help the Congress and the President to respond to unforeseen circumstances.

The BEA also established separate budget authority and outlay caps. More recent proposals for enforcement, such as that advanced by Representative Penny (in H.R. 998), would cap only budget authority, without imposing a separate cap on outlays. Proponents of a single cap maintain that capping both budget authority and outlays is redundant at best. The redundancy results from the fact that outlays represent the future liquidation of budget authority; thus, limiting budget authority will, in the long run, limit outlays.

Moreover, some of the practices that have been engendered by the existence of outlay caps have proved counterproductive. For example, some appropriation bills have dealt with the necessity to meet strict outlay caps by delaying obligations into the future, thus making the out-year problem worse. Another distorting practice is letting outlay targets force choices on budget authority to be made on the basis of spend-out rates for competing programs. Conversely, since the deficit effect of spending is recognized not by budget authority but by outlays, a cap only on budget authority might not achieve the level of reduction in discretionary spending set out by the budget resolution for a particular year as effectively as having two separate caps might.

At the very least, relying on a budget authority cap alone requires redefining budget authority, since some discretionary outlays are not now

controlled by discretionary budget authority. Even there, the relation between budget authority and outlays would not always be a tight one.

PAYGO Issues

As the Congress evaluates the specific structure of PAYGO, its most important issue will be to decide on the length of time for which PAYGO is extended and the duration of the PAYGO scorecard. Under current law, although PAYGO is enforced one year at a time, the effect of direct spending and revenue legislation on the deficit is entered on a PAYGO scorecard that runs through fiscal year 1995. Consequently, the closer we get to 1995, the easier it becomes for proponents of reduced taxes or increased mandatory spending to push the cost of their proposals beyond the PAYGO window.

One idea that has surfaced in response to this shortcoming is to enact PAYGO for ten years rather than five. But estimating the effect of current legislation on spending or taxes for more than five years from now leads to increasingly uncertain estimates that might undermine confidence. The PAYGO discipline could extend beyond five years by instituting a five-year rolling scorecard. Under such a regime, estimates for changes made in the fiscal year 1994 budget cycle could be made for 1994 through 1998, changes

enacted in 1995 would be scored for 1995 through 1999, and so on. For at least five years, this approach would prevent proponents of changes from avoiding enforcement by pushing costs out just a couple of years. At the same time, it would thwart jeopardizing the whole process in a morass of unreliable estimates.

A second issue with PAYGO concerns the base that can be used for sequestration. The Budget Enforcement Act subjected a rather narrow base of mandatory programs to across-the-board cuts if PAYGO requirements were not met. This procedure has worked fairly well and might be maintained. But the Congressional Budget Office has argued elsewhere that the best way to build consensus on actions to reduce the deficit is to ensure that the effects of such actions are spread broadly. A broader base would exist, for example, if all mandatory programs were subject to sequestration, or if automatic tax increases were triggered by a breach of the PAYGO discipline. Without a broad base, supporters of exempted programs would not find it in their interest to cooperate in achieving any consensus on policy changes, since their programs would not be adversely affected by a sequestration. Broadening the base gives everyone a stake in adopting a reasoned action plan.

Enforcement legislation that spreads the budgetary pain broadly, then, is generally preferable to one that singles out specific programs for large

reductions. In addition, a broad base makes the enforcement procedure more credible by lessening the size of reductions in individual programs that would occur as a result of sequestration.

Should a Deficit Reduction Trust Fund Be Created?

Proposals have been made to establish a trust fund earmarked for deficit reduction. Under this concept, all revenue increases and savings from spending cuts that were included in the budget resolution would be placed into this trust fund. The apparent purpose of this change would be to assure the public that the tax increases and spending cuts included in the resolution would actually reduce the deficit.

As a matter of fiscal fact, any tax increase or spending cut reduces the deficit relative to the level that would have existed without that action. But saying that deficit reduction has occurred is different than achieving particular deficit targets, and creating such a trust fund could not ensure any particular deficit outcome.

Consider the experience under the 1990 budget agreement. The Congress enacted tax increases and spending cuts that totaled almost \$500

billion over five years. At the same time, it enacted procedures to ensure that this \$500 billion in savings was not undone, and indeed these procedures have been followed. Nonetheless, current projections are that while approximately \$500 billion in savings was achieved, the anticipated deficits were not reduced accordingly.

What is the cause for the difference? It is almost exclusively the result of changes in the economy and in technical assumptions concerning programs such as Medicare. Placing the tax increases and spending reductions into a trust fund would not have changed that outcome. Accordingly, establishing such a trust fund to accompany this year's reconciliation bill would not ensure that the deficits projected by the budget resolution would come true. In fact, no action can guarantee achieving a specific future deficit level. The pertinent insurance policy is strong enforcement of the cuts agreed on.

Strong enforcement of existing agreements could be supplemented by procedures triggering the consideration of further actions, without creating a trust fund. The Congress could, for example, require the President to submit a plan for enacting additional deficit reductions should the deficit outlook deteriorate in any way. The Congress and the President would not be required to take deficit reduction actions, but would be required to actively consider doing so.

BEYOND THE 1993 RECONCILIATION BILL

I believe that extending BEA-like enforcement procedures is the most effective alternative available for the budget process. However, the process places a heavy responsibility on the President and the Congress to determine each year whether additional deficit reduction is necessary. In 1990, this responsibility may not have seemed so great: many people hoped that merely enforcing the deficit reduction set out in the budget agreement would put the deficit on a long-term downward path.

In 1993, there is no such hope. Implementing this year's budget resolution would reduce deficits from an estimated \$300 billion in 1993 to \$193 billion in 1997. Under the budget resolution policies, however, the deficit will begin rising again--to \$202 billion in 1998. Further, the deficit is expected to continue to increase beyond 1998. Therefore, at least one more round of similar deficit reduction will be necessary to bring the deficit under control, even if the current budget resolution savings are enacted in full.

Extending the mechanisms to enforce the BEA does not imply that additional deficit reduction is not necessary. It should imply, however, that the President and the Congress have accepted the responsibility to enact additional savings in the future.

Mr. CONYERS. What do you think of the administration's budgetary initiatives thus far?

Mr. REISCHAUER. I think it is a very significant step in the right direction. One can argue about whether it relies too much on taxes versus spending cuts, and whether it clamps down on entitlements to an appropriate degree. But I regard that as your bailiwick not mine. Mine is to ask, is this real beef or is it bun? It is real beef.

It is significant. It is not as big as the step that was taken in 1990, but one has to remember that this President will be blamed or credited for not only the deficit reduction he is proposing, but also for the deficit reduction that was agreed to in 1990 but for which the decisions have yet to be made to fulfill it.

So he is going to have to carry not only his own water, but also some of the water from the 1990 agreement. And if one makes an adjustment for that, the package is comparable to the one that was agreed to in 1990, which seems to be about as much as our political system is capable of bearing every 3 years.

Mr. CONYERS. Well, can you help us out with some view of the enforcement mechanisms, since this is an important part of the whole budget process?

Mr. REISCHAUER. Well, as I said, I think the system we have had in place for the last 3 years has worked surprisingly well. The Congress has appropriated no more than is allowed under the discretionary spending caps—and in many years less than was allowed—and the pay-as-you-go discipline has been adhered to.

We have been left with a deficit that is unacceptable, but it has not been because policymakers reneged on the decisions that were made in 1990, it is because a host of technical factors have driven up the deficit, as have a weak economy.

Mr. CONYERS. So you are not optimistic about entitlement caps?

Mr. REISCHAUER. I don't think I said that, but I do have a good deal of skepticism about entitlement caps as they have been described over the last few years, which tend to be more or less procedural promises. They are limits of the sort Gramm-Rudman imposed. Entitlements shall not be higher than X, and behind that there is no detailed set of policies to implement if the entitlement programs do threaten these maximum amounts.

So like a balanced budget amendment or various other forms of procedural promises, they look very attractive, but one reason they look so attractive is that nobody has revealed the teeth that would be required to enforce them.

When you think about entitlement caps, you should also realize two things. The first is that we basically don't have an entitlement problem. Entitlements are not running amok and have not been running amok in general. Our projections for entitlements over the next 10 years are that the nonhealth-related entitlements will grow more slowly than GDP; that Social Security will go from 4.9 percent of GDP to 5 percent, a 10th of a point increase; that other nonmedical entitlements will go from 3.9 percent of GDP to 3.1 percent, an actual reduction; and that Medicare and Medicaid will go from 3.7 percent to 7 percent. That is where the problem is.

But the question is can you solve that problem by addressing the health care programs of the Federal Government alone? I think the

experience of the last few years would suggest that the answer is no.

The rapid growth in health care costs within the government programs is really a reflection of what is going on in society at large. Health care in the private sector is running amok as well. While we can go in, as we did in the 1980's, and cut back these health care programs in the government sector, there is no indication that our success then at constraining cost growth, in Medicare for example, had any impact on overall national health expenditures. They actually grew faster in the last half of the 1980's than in the first half of the 1980's, adjusted for inflation.

What seems to have happened is that every penny we saved by slowing down spending on Medicare was shifted into the private sector. So we, as a Nation of taxpayers, were unwilling to pay directly the taxes necessary to support the Medicare program, but indirectly we did pay the taxes and we paid them by having very rapid increases in the private health insurance premiums that our employer was paying, for which we were asked to pay. As a result, our net incomes did not grow as rapidly as they would otherwise.

Mr. CONYERS. Thank you very much. Your testimony is important and significant to this committee, as always.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Dr. Reischauer, you talked in your testimony about the Gramm-Rudman Act and the fact that it failed and that it did not reach—

Mr. REISCHAUER. Let me qualify that, because I have actually published an article that was a defense of Gramm-Rudman. Gramm-Rudman failed to bring the deficit down as promised. I am a believer, and I think you probably are too, that having Gramm-Rudman in place did restrain the growth of spending.

Mr. MCCANDLESS. We didn't meet our goals, and probably there are a number of reasons for it. But then we came along with the 1990 budget agreement and since that time our budget has pretty well soared, if I can use that term correctly, at least that is my assessment of this. What is the problem here?

Mr. REISCHAUER. Well, the 1990 budget agreement and the enforcement procedures required no further deficit reduction action. What those procedures did is say that if you adopt this reconciliation bill and this series of cuts, then the enforcement procedure is going to ensure that there is no backsliding on that.

Now, in the Congress's defense, you should remember that at the time these negotiations were going on, my office and the Office of Management and Budget thought that if the 1990 summit agreement was accepted, the deficit would be down below \$50 billion by 1995. In other words, that this was really close to the solution to our problem.

We turned out to be woefully wrong, not because the Congress went and abrogated the policy decisions it made, but rather because the economy turned out to be much weaker than we thought, which has held revenues down and pushed spending up for things like unemployment, and because of this nebulous term called technical factors.

And you might ask, what does "technical factors" mean here? I will give you some examples. When we have good weather in the Midwest and large crops, farm price supports automatically rise because the supply of grains or cotton increases, the price falls, and price supports go up. Unexpected increases of that sort are counted as technical adjustments.

The Medicare and Medicaid programs have grown far faster than OMB or the Congressional Budget Office projected. Why? Not because the programs were enriched or the management of the programs changed in any way, but one reason is that there were a number of court cases in the late 1980's and early 1990's that said that a group of people who had been denied benefits for disability insurance and Medicare and Medicaid had been excluded incorrectly. You had to cover them. And so the rolls rose very, very rapidly, and that has added tens of billions of dollars to the deficit estimates.

Another technical factor would be what has happened in the Medicaid program with respect to the craftiness of our State governments. In 1990, we had not really an inkling that State governments would devise provider tax and donation schemes to, in a sense, milk the Federal Treasury of resources in the Medicaid program. They have done that extremely skillfully and it has forced up spending.

These are the kinds of things you have to keep in mind when you ask yourself whether we could implement an entitlement cap or even a cap on a particular program. What if we went to the Medicare program and we said, CBO thought you were going to spend, let's say \$150 billion in 1994 and instead you are going to spend \$170 billion, why is there the difference, and it turns out the difference is because the Supreme Court made a decision?

Would you then want to respond in some way with an automatic or across-the-board cut? It is very complicated. You might. I am not saying you wouldn't, but I am not sure you would want to write into law some guillotine approach when there could be many different reasons for this excess spending.

Do you want to say that when the weather is great in the Midwest and we have a bumper wheat crop and wheat prices fall, then we should cut back on the CCC program? That is what it was intended to respond to precisely.

Mr. McCANDLESS. I liken the Federal Government to an entity that has a certain budget that it establishes irrespective of income, and as conditions and the economy change, the budget doesn't change, it continues on a pretty level plain.

And so rather than having a balanced budget by doing what is necessary, one just goes out and borrows the money.

Mr. REISCHAUER. I agree with you completely if you say that when circumstances change we should go back and readdress the budget and ask whether we can afford all of these programs that we are providing. If we can't, should we tax ourselves more heavily? That reexamination should be done, and it should be done every year.

It is not done every year, as you know, but I am not sure that that is a procedural failing as opposed to—

Mr. McCANDLESS. Let me throw you the grenade, how about zero-based budgeting?

Mr. REISCHAUER. We dabbled with this before, back in the Carter administration, and you can spend a whole lot of time and effort of bureaucrats in a very wasteful kind of way. Do you really want to go to the Social Security system every year and debate whether we should have one or not?

Do you want to debate whether we should have a Securities and Exchange Commission or an Internal Revenue Service or an Immigration and Naturalization Service or a border patrol? There are a lot of things that the government does—the courts, the prisons—that basically provide the infrastructure for a complex society and a modern economy, and there is no real sense in going back and rethinking those from scratch every year.

On the other hand, we clearly have some programs that were created in a different era, when there were different needs, that should be looked at, reevaluated, and possibly eliminated or greatly reduced, and we don't do that.

Mr. McCANDLESS. That is the thrust behind the question. Once something gets on the books, it very seldom leaves in terms of the program and the costs for that program.

Mr. REISCHAUER. Old programs never die. They don't even fade away. That is the problem.

Mr. McCANDLESS. Your assessment of the budget process, we got into that earlier when you were here as a part of the audience. You heard my comments relative to it. I lived with a balanced budget environment for the time that I have been in public office prior to coming here. Some very painful decisions that had to be made relative to law enforcement, fire protection, health, welfare and the various and sundry other aspects of California county government.

Is there something that maybe this committee should look at relative to the budgetary process, realizing it isn't going to save the economy, which produces the revenue that drives the government? But if we can find something in the way of a process where we don't have to stop and do a Gramm-Rudman, and then the Gramm-Rudman maybe steps on some people's toes or isn't what some parties want and then we go do a budget agreement, and then the next thing, and then the next thing, and the next thing, which means to me that the system is flawed. We shouldn't have to go through the series of events that we have in the last 8, 10, 12 years.

Mr. REISCHAUER. I would shy away from prescriptions that the Federal Government always run a balanced budget. And there are two things that the Federal Government does that the counties and the States and the other units of government do not.

One is that it has responsibility for stabilizing our economy. There is of course monetary policy, which helps, but we traditionally have resorted to fiscal stimulus when the economy has slowed down.

The other thing, of course, is defense; the Federal Government is responsible for protecting us from foreign enemies. So I am skeptical that a balanced budget is the appropriate prescription for all times.

The real problem here is, I think, not a disagreement about where we should go. I think people on the liberal side of the political spectrum and on the conservative side of the spectrum all agree that the Federal Government shouldn't be absorbing as much national saving as it is. It is hurting our future. We ought to get the deficit down.

The question is, how do we go about doing it and is there a substitute for political will? Can process create political will where there is none? I suggest that the Gramm-Rudman experience proves that it cannot.

A process can reinforce the backbone of those with political will once they have made the decision and they are faced with the onslaught of the groups that are feeling the pain.

Mr. McCANDLESS. Thank you, Doctor.

Mr. CONYERS. Thank you so much, Mr. McCandless.

The Chair hopes to entertain the questions and comments of Mr. Waxman and Mr. Spratt and yet make this vote at the same time.

The Chair recognizes Mr. Waxman.

Mr. WAXMAN. I am going to ask some quick questions and if you are direct in the response, we can get through them. When we look at the future and we are trying to hold down the deficit, obviously one way is to restrain spending and the other way is to raise taxes.

If we are going to restrain spending, we have discretionary spending and we set caps on discretionary spending. The issue is: Should we set these kinds of caps on entitlement spending?

I was taken aback by the statement that you made, and I want you to repeat it, if it is accurate, that the only entitlement area where spending is increasing more rapidly than gross domestic product is the health care programs, Medicare and Medicaid. Other entitlements are not rising that rapidly, higher than the inflation rate.

Mr. REISCHAUER. This is our projection for the next 10 years correct.

Mr. WAXMAN. Therefore, if people want to deal with runaway entitlements, they are really talking about Medicare and Medicaid. Those are the two entitlement programs.

Mr. REISCHAUER. That is correct. If you looked at Director Darman's entitlement cap proposal which projected that there would be \$316 billion of entitlement spending above his limits over the next 5 years, we found that \$289 billion, or 91 percent of the total, was to be found in the Medicare and Medicaid programs.

Mr. WAXMAN. If we simply pressed down on what we spend on government programs like Medicare and Medicaid, will that mean that the costs will be shifted over to the private sector, States, and local governments?

Mr. REISCHAUER. We have two possibilities here—three possibilities: To give Mr. Kasich his due, and I think he had a good point. It is conceivable, and one would hope, that we can make the government programs more efficient and save some money. But my guess is that the scope for saving there is relatively modest.

The second possibility is that we ratchet down Medicare or Medicaid provider reimbursements, which are already below the cost of providing services. And the providers of these services, to com-

pensate themselves for this lost income, just ratchet up the amounts they charge the rest of us. And the care stays the same.

The third possibility, of course, is that faced with reduced payment levels, the quality of care received by Medicaid and Medicare recipients diverges significantly from the quality of care that the rest of us receive. And that would show up in the number of doctors who decide they will treat Medicaid and Medicare patients, or in the quality of those doctors relative to other doctors.

Mr. WAXMAN. So we wouldn't want any of those results. We would certainly want more efficiency; whatever saves the government. We don't want the quality to deteriorate. We don't want to shift costs to the private sector. That is why President Clinton has talked about health care reform not just on the government side, but over all. Some might say that is well and fine, but what if we don't get national health care reform? Why not build in a projected increase which is far above the inflation rate?

It will be the medical economic index and we will look at the best judgment we can as to what those increases ought to be, and then we will say, you can't have any more increases above that.

Would that work or are we then faced with the fact that we have locked ourselves in a box, because we really can't control lots of factors that affect program spending, like what the economy is doing, what the inflation rate may be, how much of an unemployment increase there might be, what the poverty rate may be, whether we will have an AIDS epidemic?

So isn't it likely that even our best projections could be well off of what the reality will be?

Mr. REISCHAUER. I have been humbled over the last 4 years and I can assure you that our best projections, which I will argue are the best available, will be wrong for 1998 by a significant amount. Things that we cannot foresee now will have significant impacts on Medicare and Medicaid costs; they could be in either direction.

Unfortunately, recent history seems to suggest that the errors are always in the same direction, underestimating.

Mr. WAXMAN. Would your best guidance be to us: Reform the health care system over all if you want cost increases that are predictable.

Mr. REISCHAUER. As you know, my office doesn't make recommendations, but I think that would be a reasonable inference from my saying I didn't think that the cost problem in the government health care programs could be solved within the government sector alone.

Mr. WAXMAN. Second, would you then reach the conclusion that perhaps we ought to come back each year and see what is happening in the real world and then make changes that are appropriate?

Mr. REISCHAUER. Yes, I think that is a sensible way to go, but the problem here is one that I think Mr. Spratt raised, which is that once we decide on a very painful set of deficit reduction measures, as we did in 1990 and as we are going to do in 1993, we are very reluctant to come back the next year or the year after and readdress these issues.

Mr. WAXMAN. Since you raised the issue——

Mr. REISCHAUER. But we should.

Mr. WAXMAN. Since you raised the issue that Mr. Spratt raised, I am going to yield the remainder of my time to him.

Mr. SPRATT. I thank the gentleman for yielding.

A couple of quick points. Could you have CBO provide us with a chart that takes the budget resolution we adopted this year from fiscal year 1993 to 1998 and shows entitlements year by year in the aggregate and breaking out the entitlements over a period of time?

I hope that is a pasteup from something that you already have got.

Mr. REISCHAUER. It really isn't, for the simple reason that the budget resolution includes reconciliation instructions to committees and they can fulfill those reconciliation instructions any way they want. The way Mr. Waxman decides to split savings between Medicaid and Medicare part B will affect what the numbers look like in 1998, so it is not easy.

It is impossible, basically, to get that breakdown at this point in the process. Once the reconciliation bill is approved, it is possible.

Mr. SPRATT. OK. Can you give us the aggregate for entitlements over that period of time?

Mr. REISCHAUER. Yes, we can give you the basic picture to the extent that it is definable at this point.

Mr. SPRATT. I mentioned earlier some kind of extension of the PAYGO rule that would be combined with the reconciliation process so when we take the projection of aggregate entitlements, and maybe individual entitlements as well, and provide that to the extent they exceeded their projected allowance in this year's budget resolution by a certain amount, maybe 10 percent, maybe some band of variability, then we would have to do one or two things in reconciliation.

We would have to confront the issue at least, And we would have to either provide the revenues to pay for the additional costs or we would have to cut costs and bring the deficit impact down to neutral.

Do you see that as a workable scheme?

Mr. REISCHAUER. Yes, I do. I think it forces a reevaluation of the situation if the entitlement outlook deteriorates. The one problem I see with it is that it would suggest that if somehow entitlements stay within this cap, we don't have to address any deficit issues.

As I said before, the President's proposal, and what is going through the Congress right now, is an important step in the right direction, but we have a long way to go after it, even if entitlements remain well-behaved over the next 5 years. So I would hope that there is some way, through the budget process, that we can readdress the deficit every year.

Mr. SPRATT. But assuming revenues reasonably track your projections over the next 5 fiscal years, if we kept entitlements in the aggregate in those limits, if we did what we have done and skewed to the discretionary spending limits, then the deficits we have projected—

Mr. REISCHAUER. Will come to pass.

Mr. SPRATT. And this would be some way of saying that relieving variables is the only guarantee.

Mr. REISCHAUER. That is correct.



Mr. SPRATT. You put a chart in here, table one, that everybody should read, because it shows that the variance in revenues alone since fiscal year 1990 is \$490 billion which is more than we started to reduce the deficit by. This exceeded the deficit reduction. It would be \$1 trillion worse in debt had we not carried out the budget summit agreement of fiscal year 1990.

Mr. REISCHAUER. That is right, about \$500 billion.

Mr. SPRATT. The other aspect that you pointed out here was that Medicaid and Medicare in particular have grown substantially. In a 3-year period of time you have revised your estimate for that 5-year period by \$189 billion, which is just a phenomenal increase over a short period of time.

I have 1 minute and 39 seconds to go vote.

Mr. REISCHAUER. I have 2 minutes to get across town to give a speech.

Mr. SPRATT. If you have any ideas that you would be willing to share about how we could cap entitlements or extend the PAYGO rule, we would appreciate you submitting it for the record.

The hearing is hereby adjourned.

[Whereupon, at 12:56 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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